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Fresh sparks in Aegean powder keg, Page 3

World news | Business summary

Turkish offer eases tension in Aegean

The threat of fighting between Greece and Turkey in the Aegean receded after Turkey dropped plans to prospect for oil east of the Greek islands of Thassos and Lesbos.

Turkey said it would not prospect outside its territorial waters, if Greece did not. The North Aegean Petroleum Company said in Athens it had frozen plans to start drilling east of Thassos, the proposal which first prompted Turkey's decision to prospect. Page 20

Minister found dead

South Africa's Environment Affairs Minister John Wiley, 60, was found shot dead in the bedroom of his home south of Cape Town in an apparent suicide. Page 2

Beirut women shot

Four Palestinian women were killed when Shia militiamen fired at demonstrators protesting at Shatila refugee camp over food shortages caused by a four-month siege, Palestinian spokesmen said.

Libyans seek asylum

A Libyan military helicopter landed at an air base near Cairo, and its crew of three, including a colonel, asked for political asylum, the official Middle East News Agency reported.

Lisbon rule threat

The survival of Portugal's minority Government looks uncertain after Prime Minister Anibal Cavaco Silva said he would not negotiate concessions to persuade Socialists to abstain from a censure motion. Page 20

Turkish EEC move

Turkey will formally apply for membership of the European Community in the next few weeks, despite widespread diplomatic pressure to delay the move. Page 3

Chirac in US

French Prime Minister Jacques Chirac arrived in New York to start his first official visit to the US, during which he will meet President Ronald Reagan.

Communist holds key

A woman Communist holds the key to Italy's political crisis. Nilde Iotti has been asked by President Francesco Cossiga to consult party leaders on whether a coalition can be found to avert a general election. Page 4

Shamir's Gaza pledge

Israeli Prime Minister Yitzhak Shamir said that the Gaza Strip and the occupied West Bank would remain in Israel's hands "forever" when he was re-elected chairman of the Herut Party. Page 2

Polish prices rise

The Polish Government raised food, fuel and energy prices but warned it had taken an economic risk by reducing the scale of increases under pressure from the country's official trade unions.

Soviet honesty plea

Alexei Adzhubei, 62, son-in-law of late Kremlin chief Nikita Khrushchev, called in a Moscow journal for more honesty in the presentation of Soviet history, saying constant rewriting of history books had turned young people into cynics.

Siberia for jobless

A quarter of a million people are out of work in the southern Soviet republic of Azerbaijan, where the authorities have begun shifting jobless workers to Siberia, an official newspaper reported.

Iraq hits pipeline

Iraq said its aircraft attacked the pipeline network through which oil is pumped to Iran's main terminal at Kharg Island.

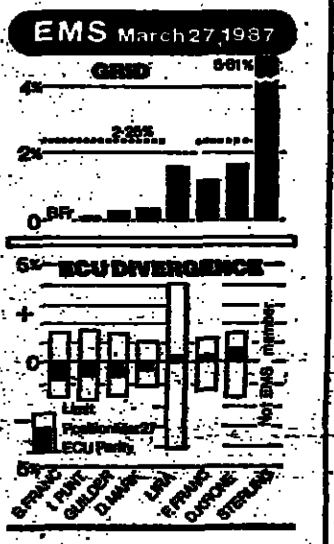
Ferruzzi to raise $400m in France

FERRUZZI, Italian agro-industrial group, plans to raise $400m in France to help pay for its acquisition – agreed last week – of the European corn-starch and glucose operations of CPC International, US grocery products group. Page 20

EUROPEAN Monetary System: Currencies showed little overall change last week. Attention switched from sterling to the dollar as the latter broke out of its recent trading range despite strong support from several central banks. The dollar's renewed weakness appeared to have little effect on the weaker currencies, with the Belgian andDanish central banks both allowing modest reductions in short-term interest rates.

TOKYO Stock Exchange climbed to another record in Saturday's half-day trading as investors took advantage of low equity prices in non-ferrous metals and asset-backed shares. The Nikkei average closed up 151.36 at 22,178.02.

TURNER Broadcasting Systems, US television group which took over MGM/UA Entertainment last year following an aborted bid to win control of the CBS network, lost $187.3m in 1986 and has warned that it expects heavy losses for "the foreseeable future." Page 21



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

FOKKER, Dutch aerospace group, said 1986 earnings plunged 36 per cent to Fl 19.1m ($9.5m) from Fl 33.1 in 1985, on the high development costs and production delay in its two new aircraft. Page 24

OVERSEAS CHINESE Banking Corporation, and United Overseas Bank, two of Singapore's leading banks, saw modest profit recovery last year. Page 24

SEKISUI HOUSE, Japan's largest home builder, showed a gain of 16.9 per cent in pre-tax profits to Y23.13bn($155.1m) in the year to January.

PANAMA'S flag of convenience shipping fleet has expanded by 1.2m gross tons since the end of 1986 to a record total of 59.25m gross tons, according to official figures due to be released today. Page 20

AGUSTA, Italian aerospace company which took part in last year's unsuccessful European consortium bid for Westland Helicopters of the UK, has returned to the black for the first time in three years to post consolidated net profit of L10bn ($7.7m) for 1986. Page 21

BULL, nationalised French computer group, plans to launch a FFr 800m ($133m) bond issue with equity warrants to help finance its international development strategy, including its recently constituted joint venture with Honeywell of the US and NEC of Japan. Page 24

Thatcher takes the campaign trail to Gorbachev

BY PETER RIDDELL, POLITICAL EDITOR, IN MOSCOW

MRS MARGARET THATCHER, the UK Prime Minister, will this morning start several hours of talks with Mr Mikhail Gorbachev, the Soviet leader, after spending yesterday sightseeing and on the campaign trail around Moscow to provide spectacular coverage for British television.

She visited a monastery, went on several walk-abouts, met some allegedly ordinary Russians at home and strolled round a supermarket where she bought bread, butter, cheese and a tin of pilchards. This was paid for by her private secretary and quickly taken away by her personal detective.

The Prime Minister's meeting with Mr Gorbachev will concetrate on arms control and the removal of intermediate-range missiles from Europe. Mrs Thatcher will seek reassurance about the implication for short-range missiles and for the broader strategic and security balance.

However, Pravda, the Communist Party newspaper, yesterday accused the West of "muddying the waters" after the US had "complicated the issue by proposing to convert Pershing 2s to short-range weapons. In contrast to the Soviet Union's "crystal-clear proposals," Pravda said Nato was approaching "the matter in a round about way."

But yesterday was essentially visual rather than substantive. With British TV viewers very much in mind, Mrs Thatcher was, however, vigorous in denying any thought of a general election and advised inquiring reporters to enlarge their view. She was here "to represent my country on an historic mission."

Yet the style was the familiar Thatcher of the past: the photogenic scene with monks in the monastery and the meeting of ordinary people and a two-year-old housing development in southern Moscow. It may have been Krylatskiye yesterday (it could easily have been the election campaign in any new town in Britain – and no doubt will be later this year).

Indeed, judging by yesterday's reception, Mrs Thatcher would have swept the Moscow suburbs in any poll. She was applauded wherever she went, and there appeared to be genuine curiosity as people peered out of the windows of tower blocks and crammed snowy and slushy verges to catch a glimpse of her.

Visiting a flat on the 10th floor of one 17-floor block, Mrs Thatcher was kissed by one Anna Yegorova, who presented her with roses and said she would like to visit Britain.

Next door the ordinary Russian, Victor Valentina Lizeinenko, turned out not to be quite so typical after all. He works for the Department of Foreign Relations. The onlookers were clearly bemused by the accompanying media circus of over 200 journalists, photographers and television crews who spent the day jostling and, on a few occasions, fighting the zealous protectors from the KGB.

At the splendid golden and blue-domed Russian orthodox monastery at Zagorsk, the scrum was such that Foreign Secretary Sir Geoffrey Howe with a camera round his neck like a proper tourist, was squeezed out at times. The only calm people were Mrs Thatcher, the bearded monks and the many old women in the town shyly giving little waves to her. Mrs Thatcher heard the monks' choir singing Old Slavonic chants and saw beautiful murals and icons from the early 15th century, later receiving a recent icon in that style.

She ended the day equally splendidly at a performance of Swan Lake at the Bolshoi Theatre where she sat next to Mr and Mrs Gorbachev in the Royal Box. Her message throughout was mutual confidence, to see the meaning of what had happened under Mr Gorbachev both internally and externally, speaking at a lunch at the monastery he called for the freeing of people and lit a candle during the service as a symbol of hope to show her solidarity with Christianity in the Soviet Union.

On her Saturday flight to Moscow Mrs Thatcher gave an interview in which she stressed the link between arms control and human rights as pretty realistic. "We don't do the diplomatic nicety. We get down to the nitty gritty. I respect him, and he respects me."

Mrs Thatcher stressed her interest in seeing the extent of change.

In characteristic terms she stressed that freedom and justice meant the chance to do better for one's family and the right to private property.

While stressing that she was not negotiating on arms control, Mrs Thatcher said that it was important to keep security in mind. "The objective is not arms reduction. It is one of freedom and justice, together with arms reduction."

Mrs Thatcher, who received a message of good wishes from President Ronald Reagan just before she left, said she had not decided whether she would visit the US after Moscow,

Foreign Affairs, Page 19

Britain presses US to join protest over Japan's trade policy

BY LIONEL BARBER IN WASHINGTON AND IAN RODGER IN TOKYO

BRITAIN is pressing the US to join in a concerted protest against Japan's efforts to keep foreign companies out of its domestic telecommunications market.

This is the latest twist in the rising trade tension between Europe, the US and Japan which otherwise largely centres on electronics.

The UK is understood to have asked the Reagan Administration to send a letter to Mr Yasuhiro Nakasone, the Japanese Prime Minister, to protest against the terms of a merger between two rival consortia which are seeking a licence to operate as Japan's second telecommunications carrier.

Foreign companies are limited to 3 per cent stakes, and foreigners are prohibited from serving as executive directors under the merger announced in Tokyo a fortnight ago.

The British pressure poses an acute dilemma for Mr Reagan, who is due to meet Mr Nakasone at end of next month to discuss trade matters.

Last Friday, in Washington's first unilateral trade retaliation since the Second World War, Mr Reagan decided to double the import price of a wide range of Japanese electronic products. The action followed allegations that Japan had failed to live up to promises to stop dumping its semiconductors in third markets.

The Japanese Government reacted with an unusual degree of anger, threatening to repudiate the eight-month-old bilateral semiconductor agreement with the US and complain to the General Agreement on Tariffs and Trade (Gatt).

The dominant Japanese view is that the US has acted emotionally, because of anxiety that Japanese semiconductor technology is rapidly surpassing that of the US in some areas.

At the same time, however, Tokyo is rushing to put together a new package of market-opening measures designed to diffuse what it recognises is a dangerous rise in protectionist and, in particular, anti-Japanese sentiment within the US Administration and Congress.

There were reports yesterday, for example, that the Government would soon announce a decision to buy several US-made Cray supercomputers. The US Government has complained that US supercomputer makers do not have fair access to Japanese public-sector bodies, such as universities.

Mr Nakasone has also ordered the Ministry of Posts and Telecommunications to find an early solution to the row over the establishment of Japan's second international telecoms carrier.

A senior official of the Ministry of International Trade and Industry (Miti) is to go to Washington next week to attempt to dissuade the Administration from implementing the punitive tariffs in advance of Mr Nakasone's visit to Washington. One view in Tokyo was that a successful resolution of the trade crisis might bolster Mr Nakasone's sagging political position at home.

The announcement enfuriated Mrs Thatcher and unleashed a storm of protest in the US Senate which voted unanimously 10 days ago for a motion calling for retaliation by President Reagan. Mr Malcolm Baldridge, US Commerce Secretary, and Mr Clayton Yeuter, US Trade Representative, have also made strong protests to the Japanese Government.

Cable & Wireless of the UK has a 20 per cent stake in International Digital Communications, one of the two groups bidding for the telecoms licence. But US firms are also heavily involved. Pacific Telesis has a 10 per cent stake and Merrill Lynch has a 3 per cent stake. Heightened US interest also arises from a Cable & Wireless project to lay a trans-Pacific cable between the US and Japan.

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Infighting delays Peking's decision on Hu successor

BY ROBERT THOMSON IN PEKING

POLITICAL infighting within a divided Chinese leadership is preventing the appointment of a successor to Hu Yaobang, the deposed General Secretary of the ruling Communist Party, according to diplomats in Peking.

Hu will not be replaced until a full party congress in the autumn, according to a weekend announcement at a rare press conference which saw senior leadership contenders on public display.

Zhao Ziyang, China's reform-minded Prime Minister, will remain acting leader of the 44m member party until the Congress. If Zhao is confirmed as party chief, the three vice-premiers on show at Saturday's press conference would be front-runners to succeed him as Prime Minister.

The struggle for the Chinese leadership hierarchy will depend on the outcome of the continuing battle between supporters of economic reform and those who favour a return to orthodox Marxism.

Diplomats assessing the outcome of last week's sitting of the National People's Congress – China's nearest equivalent to a Parliament at which the disgraced Hu made a surprise reappearance only to be publicly criticised – expect intense political manoeuvering leading up to the 13th Party Congress.

Yao Yilin, one of the three vice-premiers at Saturday's press conference, said that Hu had "asked to resign."

Hu was demoted in mid-January, and Chinese sources say he was forced to resign after clashes with the paramount leader, Deng Xiaoping, and other elderly party members over numerous issues, including his liberal views and his attempts to force the retirement of elderly leaders.

If Zhao becomes party chief later this year, then two other vice-premiers at the Peking press conference, Li Peng and Tian Jiyun, will be leading candidates for the vacant position of premier while Yao Yilin, 70, who should be in the twilight of his career, is also reported to have an outside chance.

Li Peng was assertive in his answers and, significantly, was flanked at the official table by Tian Jiyun and Yao Yilin, even though Yao is senior to him. Asked by foreign correspondents if the seating arrangement, always an important guide in Chinese politics, was a good sign for his prospects as premier, Li Peng, a political conservative, said: "There is no such linkage. If vice-premier Yao Yilin is willing, I am ready to change seats with him."

Li did not offer to swap seats with Tian Jiyun, a strong supporter of economic reform. Tian headed Li as favourite for the premier's post last year after several impressive public performances, but now seems to have slipped far behind, and twice had his answers clarified by Yao Yilin.

UK Labour spokesman in attack on White House

By Michael Cassell, Political Correspondent in London

MR DENIS HEALEY, the British opposition spokesman on foreign affairs, yesterday attacked White House officials for what he claimed was an attempt to help Prime Minister Margaret Thatcher's re-election prospects by attacking Labour defence policies.

Mr Healey, who was with Mr Neil Kinnock, the opposition Labour Party Leader, when he saw the US President in Washington on Friday, accused a White House spokesman of distorting what was said during the meeting.

He said it appeared that, while the President had made it clear he did not intend to interfere in a British election issue, some of the President's advisers had thought it would be "a good idea to try to help Mrs Thatcher in her election battles."

Speaking on BBC television's programme "This Week, Next Week," Mr Healey added: "Whether this was a reward for Mrs Thatcher being the only statesman in the world to deliver her implicit confidence in President Reagan's integrity over the Iran-Contra affair or whether it has some more sinister meaning I do not know."

Mr Healey claimed that the President, who had mistaken him for Sir Anthony Acland, the British ambassador to the US, had been badly briefed by his advisers. He also said he had held separate talks with Mr Paul Nitze, the President's special adviser on arms control, who had not raised any criticisms of Labour's defence strategy.

The Labour team had expected the State Department to issue a statement after the White House meeting, but it was made by Mr Marlin Fitzwater, the chief White House spokesman. Mr Kinnock and Mr Healey are denying that some of the issues covered in the statement – such as the implied threat which Labour policies posed to the Geneva arms talks – were raised in the session with the President.

The US condemnation of Labour's policy is certain to enforce the views of some within the party that the visit should not have taken place because outright rejection of its defence stance – however it emerged – was inevitable.

But Mr Kinnock remained determined to promote forcefully the policy in the US

Background, Page 5

GEC's Foxhunter radar system will require a further £250m

BY LYNTON McLAIN IN LONDON

A FURTHER £250m ($400m) may have to be spent if the British Royal Air Force's advanced Foxhunter air interceptor rader system, manufactured by GEC, the UK electronics group, is to meet its requirements.

The Ministry of Defence confirmed yesterday that it is renegotiating its contract for the £500m radar system which is installed in the Anglo-German-Italian Tornado fighter.

It also confirmed that it was looking at alternative radars for the Tornado. The Foxhunter programme would be viewed against these "to validate it as much as anything else" the RAF said.

Foxhunter is one of the largest and most important defence contracts at GEC. The problems with it follow the British Government's decision in December to scrap the £930m GEC Nimrod system because of the company's inability to guarantee performance within an acceptable time-scale.

Last night GEC refused to comment. However, an executive at the company conceded that the Foxhunter system could require up to £250m to be put right.

The RAF has ordered 162 Tornado interceptors. The radar is designed to detect aircraft at ranges of over 100 miles and to find and continue to track manoeuvering targets while seeing a large number of targets simultaneously. The Foxhunter radar has not so far met the range requirement, and there are understood to be difficulties in seeking targets simultaneously.

One executive at GEC said: "One problem could be solved, at the expense of causing another problem. It is possible that a complete new system was needed," he said.

Several Tornado interceptor aircraft are flying with steel ballast in place of radars and those with radars have Foxhunters built only to an interim standard. These were accepted by the RAF on the basis that the radar would be improved.

The RAF said yesterday these Tornado F2 interceptors were sufficiently workable to have been declared operational to the North Atlantic Treaty Organisation. The Tornado F3 interceptors coming into service later this year "will not have an operational capability to the ultimate standard."

Mr Peter Levene, the chief of defence procurement and a severe critic of the Nimrod programme, will opt for the most commercially and militarily suitable solution to the problem of the Foxhunter radar.

GEC was awarded the original contract to develop the Foxhunter radar on the basis of getting its costs reimbursed by the MoD plus an agreed profit. After the Nimrod fiasco, the MoD wants GEC to agree a fixed-price contract, over an agreed timescale to bring the Foxhunter radar up to the RAF's requirements.

The talks are likely to be contentious. GEC is expected to argue, as it did with the Nimrod contract, that not all the problems with Foxhunter are of its own making. The company is likely to argue that it was unrealistic for the RAF to expect a radar with such advanced features to be ready in the time available.

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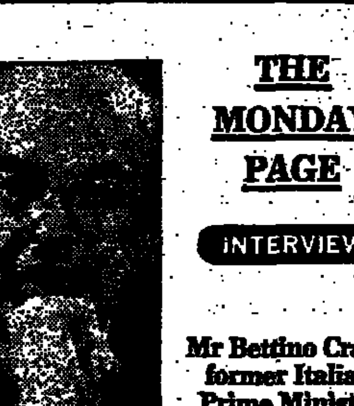

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INTERVIEW

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OVERSEAS NEWS

Davy McKee shares South Korean steel plant orders

By Maggie Ford in Seoul

A GROUP of European companies including Davy McKee of the UK have won contracts worth $150m (£94m) to build a stainless steel processing plant in South Korea.

Letters of intent have also been sent to three Japanese companies and Clecim of France for a $350m cold rolled steel mill, marking an important expansion of the country's steel industry.

The other European companies involved in the project are Krupp of West Germany and Voest Alpine of Austria. Davy McKee's part of the contract, for an annealing and pickling line, is worth $48m.

The stainless steel plant is to be built at the state-owned Pohang Iron and Steel Company's site on South Korea's east coast, while the cold rolled mill will form part of the company's new complex at Kwangyang Bay in the south.

Davy McKee has already won contracts to build two blast furnaces worth $78m each at the Kwangyang Bay complex, and two more are planned. The first blast furnace is expected to be opened next month following its completion six months early.

Alfonsin chooses union leader

By Tim Coone in Buenos Aires

A union leader, Mr Carlos Alderete, is to become Argentina's new Labour Minister as part of a government strategy to forge a "social contract" between the government, trade unions and industrial leaders.

Mr Alderete, leader of the white-collar Power Workers' Union, was nominated by President Alfonsin at the weekend.

The move is widely expected to reduce labour conflicts in an important electoral year for the Government by undermining a more militant and confrontationist sector of the General Confederation of Workers (CGT) led by Mr Saul Ubaldini, who has organised eight general strikes against President Alfonsin's economic policies.

Reagan resists the big stick in punishing Japanese

BY LOUISE KEHOE IN SAN FRANCISCO

PRESIDENT REAGAN'S decision to impose $300m (£187.5m) in punitive import tariffs on Japanese electronics goods represents a compromise between the strong action sought by the US seminconductor industry and Congress, and concerns that any trade sanctions against Japan might spark a trade war, US analysts believe.

"The President has chosen to use a scalpel rather than a sledge hammer to attack the problem," noted one industry observer.

For US chip makers, the President's announcement on Friday ended months of frustration over the apparent unwillingness or inability of the Japanese Government to force Japanese semicondtor producers to adhere to the six-month-old bilateral semiconductor trade agreement.

A trade agreement isn't worth a damn unless you have a stick behind it," said Mr Charles Sporck, President of National Semiconductor. The import tariffs will provide that stick, he believes. "The Government must do whatever it takes to make the agreement work."

"These sanctions should provide a reasonable incentive for the Japanese Government and industry to comply with the trade agreement," commented Mr Andrew Procassini, president of the Semiconductor Industry Association, a trade group representing US producers. "The Japanese have had ample time to comply with the agreement's terms."

Since the trade agreement was signed last September, Japanese companies have continued to sell semiconductor products below the cost of manufacture and US groups have gained no increase in access to the Japanese market, Mr Procassini said.

"We are pleased that the President has recognised the urgency of this situation, and the necessity of taking strong action now."

Others felt that the Government's action was not strong enough. The tariffs "could have been tougher," said Mr Robert Matsui, a California democratic Congressman. Japanese electronics sales in the US totalled more than $23bn last year, he noted. "Here we are taking $300m. To the Japanese it may well end up being worth the cost."

Mr Pete Domenici, a Republican Senator of New Mexico, agreed. "I'm even sceptical whether this is enough. There are certain ruels of fairness, and when a country violates them it deserves to be punished," he said.

"The Administration had to demonstrate that it is tough on this trade issue," said Mr Michael Boss, an industry analyst. "But they are trying to do so as innocuously as possible."

For the US subsidiaries of Japanese companies that rely upon imports from Japan, the tariffs did not, however, appear innocuous. Executives of these companies were convinced that sanctions could somehow be averted by the Japanese Government and were shocked by President Reagan's announcement.

The real impact of the trade sanctions will be difficult to assess until a decision is made on which products are to be affected. On Friday, the Commerce Department published a long list of potential Japanese products that could become subject to import tariffs of up to 100 per cent. Some items will be selected from that list following a public hearing on April 13.

According to Mr Clayton Yeutter, US Trade Representative, products will be chosen that are widely available from alternative American or foreign sources to minimise the impact on US consumers.

US electronics companies which sell Japanese-made products could however be hit hard by the tariffs. Examples include retailers and American electronics groups which sell Japanese televisions under their brand names.

Also threatened by the sanctions are US sellers of Japanese computers. One is National Semiconductor, whose national advanced systems division sells Hitachi mainframe computers. Ironically, Mr Sporck, has been a strong advocate of the semiconductor trade agreement.

US electronics companies' reactions to the announcement were muted. "We would prefer that the US Government would not have to engage in this type of activity," said a spokesman for Hewlett Packard. "At the same time we think that it is important that the Japanese Government understands our resolve to address this problem."

The tariffs could benefit US computer and electronics equipment producers if their Japanese competitors' products were effectively excluded from the US market. But few would wish to be seen applauding market restrictions.

Whether the tariffs will produce the desired effect and force the Japanese to comply with the semiconductor trade agreement is also open to question. "We are hopeful that the Japanese Government and industry will move quickly to full compliance with the agreement," said the Semiconductor Industry Association.

Privately, US semiconductor executives are growing increasingly concerned that it may not be possible for the Japanese Government to force full compliance with the agreement. Despite several strong warnings by the Japanese Ministry of International Trade and Industry, US price monitoring has detected widespread continuing dumping of Japanese memory chips in Hong Kong and Taiwan.

If the US tariffs prove enough of a threat to Japanese electronics companies to persuade them to adhere to the trade pact, however, a worldwide increase in chip prices will follow, analysts predict. Until now the full impact of the trade agreement has been diminished by the availability of low-cost chips in Asia and the diversion of chips bound for the US through Canada, Mexico and other American countries to avoid US government scrutiny.

There is some speculation in the US that the President's announcement of tariffs is really only another "warning shot" designed to gain Japanese attention and that the Japanese might win an eleventh hour reprieve. Although US trade officials said on Friday that they expect Japan to be able to take any action that could avert tariffs, Mr Yeutter indicated at the White House announcement that a decision was still to be reached on $165m worth of tariffs which represent compensation to the US for lack of promised access to the Japanese market.

SEMICONDUCTOR PACT SURVIVES DESPITE US SANCTIONS

BY OUR SAN FRANCISCO CORRESPONDENT

THE US trade sanctions against Japanese electronics goods come after seven months of disputes and negotiations over implementation of a bilateral semiconductor trade agreement reached last July and signed in September.

Retaliating for apparent violations of the trade pact, the president used his powers under section 301 to impose, unilaterally, import tariffs on Japanese goods. This action does not void the trade agreement, according to the US administration. Indeed, US officials see the action as a means of forcing Japanese compliance with the pact.

The tariffs are designed to compensate the US for business lost through Japanese violations, US trade officials said. The Administration calculates these losses at $300m although industry estimates run as high as $1bn.

The trade sanctions will be lifted if and when Japan opens its semiconductor market and stops dumping in third-country markets, President Reagan said.

Under the terms of the agreement Japan agreed to open its market to foreign semiconductor producers and prevent dumping of Japanese memory chips not only in the US, but in worldwide markets.

In return, the US suspended three major trade suits — two that charged Japanese groups with dumping memory chips, and a broader trade complaint charging the Japanese with unfair trade practices

Over the past six months, US dumping of Japanese chips has been eliminated by US Commerce Department regulation of prices. Outside the US and Japan, particularly in Asian markets such as Hong Kong, Korea and Taiwan, dumping of Japanese memory chips has continued, according to Commerce Department studies and data provided by the US semiconductor industry.

TV preachers' lavish lives laid bare as 'Satan has a field day'

BY LIONEL BARBER AND NANCY DUNNE IN WASHINGTON

"SATAN HAS had a field day," declared the Rev Jerry Falwell, preacher, politician, and putative saviour of PTL, the creaking Pentacostal ministry in Fort Mill, South Carolina.

The sex and blackmail scandal which has propelled Rev Falwell to the leadership of PTL—the acronym for People That Love or Praise The Lord—is as lurid as any cheap paperback script.

But beyond the arresting detail, the scandal has given the American public a rare insight into the fund-raising tactics and lavish life-styles of preachers who each week beam messages of salvation to an estimated 5m followers—the so-called television evangelists.

It has touched a raw nerve among the nation's conservatives. Are the TV evangelists practising what they preach and what of the Presidential aspirations of Rev Marion Pat Robertson, the standard-bearer of the religious right who can count on at least 6-8 per cent of votes in the Republican Party, making him a potential power-broker at the 1988 convention?

On the surface, the feud between the fundamentalists began when Rev James Bakker, the baby-faced founder of PTL resigned, having confessed to adultery seven years ago and paying $115,000 to cover up his sins.

He handed over his job as chairman of the board to Rev Falwell, and promptly accused a rival minister from Baton Rouge, Louisiana, Rev Jimmy Swaggart, of leaking the story and attempting a hostile take-over of PTL.

The corporate language is entirely appropriate because the subsequent mud-slinging comes down less to theology than to the root of all evil: money.

In the US, religion often comes close to being bought and sold like any other supermarket commodity. PTL—with its religious amusement park, 500-room hotel, convention centre and TV studio, is no exception. But as with any business, it has to operate in a market.

While the number of TV evangelists is still rising, the total market is close to saturation. Tightening demand among the 40-60m adults who watch TV evangelists has been matched by increasingly high overheads, notably the costs of regular TV time.

As Rev Falwell conceded: "There are a finite number of persons who can underwrite these ministries."

Yet, some ministers — like some figures on Wall Street — thought they had never had it so good. Rev Oral Roberts of Tulsa, Oklahoma, having started work on a 60-storey City of Faith Hospital — recently threatened to die if he failed to raise $8m by April 1. He had to be bailed out by a dog-track owner.

Rev Swaggart — who gathered an audience of 13,000 in Los Angeles sports stadium on Friday — immediately attacked Rev Roberts on the grounds that God is not a "hit man." In retrospect, this can be seen as the start of his clean-up campaign, with PTL next on the list.

All this is very worrying to Rev Pat Robertson, who has already begun campaigning in New Hampshire, one of the key primary races in next year's Presidential race.

Though he has still to declare his candidacy, Rev Robertson's followers have already burrowed into two state caucuses, picking up 40 per cent of pledges among Republican voters in South Carolina and 50 per cent in Michigan.

Rev Falwell — who looked at times more like a corporate troubleshooter than a fundamentalist preacher last week—is meanwhile concentrating on tightening up his ministry/business. A $50m loan—from an unknown donor — may be on the way.

S African minister found shot dead

By Jim Jones in Johannesburg

MR JOHN WILEY, South Africa's Environment Minister, was found shot dead in the bedroom of his home at Noordhoek near Cape Town yesterday morning. Police said foul play was not suspected.

Apart from his ministerial responsibilities, Mr Wiley has for several years been personally involved in property-development projects in the peninsula. Over the last two years the Cape property market has been quite depressed.

Cape conservationists and environmental groups have been critical of his use of ministerial powers to authorise property development projects in areas of outstanding natural beauty and environmentally fragile areas.

Nomination day for the May 6 white election is on Tuesday March 31 and the ruling National Party is faced with finding an alternative candidate to contest the Simonstown seat held by Mr Wiley. Cape political analysts believe that Mr Wiley, who was one of two white non-Afrikaners in the Cabinet, faced a strong challenge from Mr John Scott, the moderate Progressive Federal Party's candidate for the seat.

Shamir re-elected

Mr Yitzhak Shamir, the Israeli Prime Minister, was, as expected, yesterday unanimously re-elected as chairman of the Herut Party, the main component of the right-wing Likud bloc, Andrew Whitley writes from Jerusalem. Yesterday, at the Tel Aviv exhibition grounds, Herut Party delegates were clearly trying hard to be on their best behaviour, mindful of the universal opprobium they earned last year when fighting broke out repeatedly on both the platform and the convention floor.

Israelis in gun battle

Five Israeli soldiers were wounded and three unknown gunmen died during a sharp firefight in southern Lebanon on Saturday evening, Andrew Whitley reports. The engagement reportedly happened during a search operation by helicopter-borne Israeli troops just outside Israel's self-proclaimed "security zone" in Lebanon.

An army spokesman in Jerusalem said the gunmen were killed when Israeli troops clashed with a terrorist squad five miles north of the border.

Poland and US near agreement on joint venture

BY PETER MONTAGNON, WORLD TRADE EDITOR, IN LONDON

POLAND is in an advanced state of negotiation with Dresser Industries of the US for a joint venture to produce bulldozers and earth-moving equipment, Mr Andrzei Wojcik, Foreign Trade Minister, said.

The joint venture would be the largest to be signed up since new legislation permitting such operations was passed in the middle of last year. It could generate sales as much as $200m, he said in a interview during a visit to London.

Final agreement on the deal would mark a breakthrough for the joint venture scheme which is regarded as a important plank in Poland's efforts to boost sales of manufactured products as its traditional exports, notably coal, decline.

So far only couple of Western companies have signed up for joint ventures amid concern over the conditions attached to them. These include a stipulation that the Polish partner must have a majority stake.

However, Mr Wojcik said, Poland itself was also adopting a cautious approach.

In a separate effort to boost its trade the Polish Government is now discussing with its banks a new system of foreign currency accounts in which individual exporters may hold part of the proceeds of their hard currency foreign sales.

The idea was to allow them to use the money to buy equipment and material from abroad rather than go through the difficult bureacratic process of obtaining the necessary foreign currency from the central Government, he said.

This would help to increase the efficiency and flexibility of the exporting industry and reduce bottlenecks in the economy, he said. The new scheme would not burden the economy with additional imports as most of the goods would be bought anyway.

Commenting on the rival bids by Fiat of Italy and Japan's Daihatsu for a $700m contract to revitalise Poland's motor car industry, the minister said the time was coming when a decision will have to be taken.

Ferranti makes rival fighter radar offer

BY DAVID BUCHAN IN LONDON

FERRANTI OF the UK is offering a derivative of its Blue Vixen radar as a cheaper alternative to development of the VCR-90 which the group is offering, in an all-European consortium, for the European Fighter Aircraft (Efa).

Ferranti admitted on Friday that the Blue Vixen derivative currently being tested for Royal Navy Sea Harrier aircraft, was "not compliant with the full specifications" for the new Efa radar demanded by the Munich-based Eurofighter organisation. This is a consortium formed by the four countries building the Efa—Britain, West Germany, Italy and Spain.

Ferranti has submitted the Blue Vixen bid for consideration, should the countries in the Efa programme opt for a less capable but cheaper and more immediately available radar.

However, Ferranti stressed that the Blue Vixen alternative had been proposed with the full knowledge of its partners—Fiat of Italy, AEG of West Germany and Inisel of Spain — in the VCR-90 consortium bid.

France plans attack on electronic sex industry

BY GEORGE GRAHAM IN PARIS

AFTER A first abortive assault on pornographic magazines, France's right-wing Government is mounting an attack on the country's expanding electronic sex industry.

Mr Gerard Longuet, the Minister for Posts and Telecommunications, has announced measures aimed at cutting back the erotic message services which have colonised France's Minitel videotext network and account for a growing proportion of Minitel use.

Mr Longuet plans to remodel the charges for Minitel pages in order to reduce the activity of the erotic message services, known as "pink Minitel". The minister said that the excessive profits of these services were revealed by their excessive advertising.

His colleague, Mr Charles Pasqua, Minister of the Interior, last week tried to clamp down on a number of gay and pornographic magazines. But had to retreat following a storm of protest against his attempt at censorship.

The Minitel system began as an electronic telephone book, and directory enquiries still account for more than half the calls. France's telecommunications company will provide a free terminal – a little brown box with a screen and a keyboard – to any telephone subscriber, which has helped to spread the network into more than 2m homes.

Three additional networks have been added to the basic telephone directory. Teletel 1 is mainly for professional use, while Teletel 2 provides subscription services – usage is free apart from the basic telephone cost – used especially for electronic home banking.

Teletel 3 costs the user nearly FFr 1 (16 US cents) a minute, of which the telephone company keeps 37.5 per cent and the rest is passed on to the service supplier. This network, which includes news services, computer games as well as the erotic messages, has rocketed since its creation in September 1985 and now counts over 1,000 services.

European Court rules on Dutch VAT case

BY LAURA RAUN IN AMSTERDAM

THE EUROPEAN Court has ruled that the Netherlands must collect Value-Added Tax (VAT) on the services of notaries public and sheriff's officers in a decision that has not gone down well in The Hague.

The Dutch argued that notaries public, officers who certify documents, and sheriff's officers, who serve warrants, are government agents and therefore exempt from value-added taxes. But the European Commission contended in a suit lodged in 1985 that they are private professionals who perform commercial services and are thus subject to taxation.

The court case is based on the EEC's 6th VAT directive of 1977 which sought to harmonise the products and services on which taxes are levied and exempted. The European Commission has brought a similar suit against Britain over its zero-tax rating of the construction industry and the European Court is to deliver that decision in September.

The Netherlands has never required notaries public and sheriff's officers to charge VAT on their services and is in no hurry to do so even though it has no legal recourse to the Luxembourg court's decision. Joint discussions between the Finance Ministry, Justice Ministry and Royal Notaries Bond will be held "in coming months" to consider a new interpretation of Dutch law to conform with the court ruling, a Finance Ministry spokesman said.

The Dutch VAT rate is a relatively steep 20 per cent and taxes on the services of notaries public and sheriff's officers apparently will amount to "several tens of millions of guilders," the ministry spokesman said. What is almost certain is that the VAT will be passed directly along to the already beleaguered recipients of arrest warrants and notaries' fees.

Fame thrust on Italian woman communist

By John Wyles in Rome

A CRAFTY initiative by Italian President Francesco Cossiga has transformed Miss Nilde Iotti over the weekend from a distant, but respected political figure into a symbol of feminist hopes and Communist Party aspirations.

The 67-year-old president of the Camera—the lower house of the Italian parliament—is expected to report back to the President by mid-week on whether any government can command a majority in the present legislature. If, as expected, she cannot identify a majority, then the President would feel free to dissolve parliament and bring forward elections due in June 1988.

Miss Iotti is not being asked to form a government herself but, as an institutional figure "above party," to consult party leaders on whether an alternative exists to the ive-party coalition led by Mr Bettino Craxi, the outgoing socialist Prime Minister. Last week's failure by Mr Giulio Andreotti, the Christian Democrat leader, to conjure agreement on a new government appears to have spelled the end of the five-party combination which has governed Italy since 1981.

In the meantime, the shrewdness of the President's appointment of this elegant, greying woman as esploratrice is being steadily appreciated. Women are highly under represented in Italian politics and associating one in the attempt to resolve one of the country's most difficult political crises has been widely acclaimed by feminist leaders.

But Miss Iotti symbolises more than one cause because she is also part of the Communist Party's (PCI) leadership.

Her brief new role is allowing the PCI to dream that it can again play an influential part in leading Italy out of a political impasse. Mr Alessandro Natta, the party's leader, will be trying hard to convince Miss Iotti that there is a parliamentary majority among those parties in the centre and on the left which want to avoid early elections and thus guarantee the holding of referendums on June 14 on nuclear energy and judicial reform. Elections and referendums cannot take place in the same year

Polish prices raised

The Polish Government yesterday raised food and energy prices and said postal charges, fares and the price of meat would rise later, Agencies report. A communique said pressure from official trades unions had limited food price rises to 9.3 per cent against the 13 per cent planned. Charges for petrol, gas and electricity will increase by 25 per cent and for coal by 50 per cent.

Ariane suffers further setback during testing

By Our Paris Staff

ARIANE, the European satellite launching rocket, has suffered another setback which may delay yet again its next launch, which had been planned for June.

An accident during testing of the rocket's third stage motor has forced the Ariane group to start again with tests on a new motor. The next launch is still officially scheduled for June, but observers believe the three weeks of tests, transport to the launch site in French Guyana and erection of the rocket will be impossible to achieve in that time.

The Ariane rocket has been grounded since a third stage motor failed to ignite at its last launch in May last year. A wave of incidents has affected all the competing satellite launching programmes, and raised the potential prize money for the first to return to a normal rhythm of successful launches.

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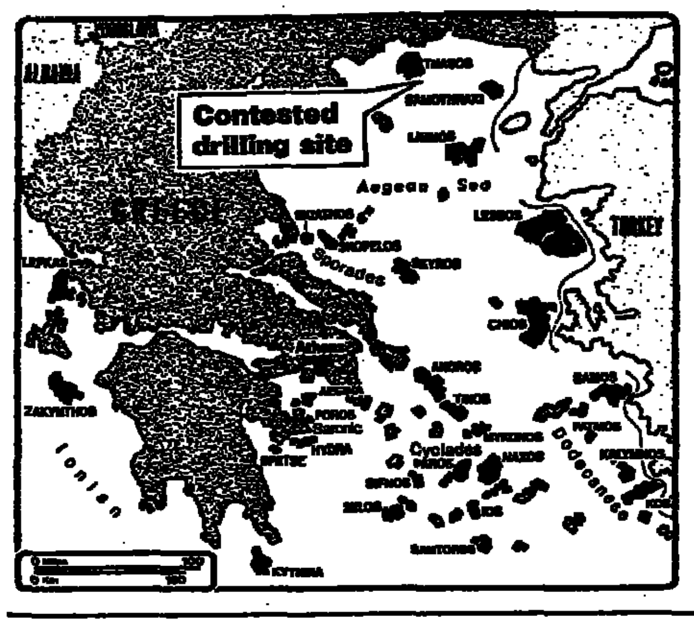
Greece and Turkey are bedevilled by an age-old hostility, **Robert Mauthner** writes

Fresh sparks in the Aegean powder keg



THE CLASH between Greece and Turkey over oil-drilling rights in the Aegean, which led the two countries to the brink of military conflict over the weekend, is only the latest of a series of long-standing territorial disagreements which have their roots in the break-up of the Ottoman Empire.

A tense political climate, fuelled by the Turkish invasion of Cyprus in 1974, the unilateral declaration of the self-styled Turkish Republic of Northern Cyprus in 1983 and Greece's firm opposition to Turkey's declared intention to become a member of the European Community, has undermined any attempts to find agreed solutions.

The legal and technical arguments deployed by both sides have merely become pretexts for fostering a permanent atmosphere of hostility which can be transformed into a conflagration by the merest spark.

Quite apart from the arguments about the continental shelf and territorial waters, Ankara and Athens are locked into constant disputes over air space and the militarisation of Greek islands in the Aegean.

When one quarrel is temporarily defused, it is transferred to another issue, making it clear that only a fundamental solution of the major bilateral political problems such as Cyprus can hope to bring any permanent improvement in the atmosphere.

The discovery of oil in the Aegean since the 1970s has added yet another dimension to the problem.

The immediate cause of the latest flare-up is a difference over the validity of the Berne Agreement of 1976, which was concluded by the two countries as a way of putting an end to a previous conflict over oil exploration activities.

The Berne Agreement clearly states that "Athens and Ankara undertake to abstain from any initiative or act relating to the continental shelf of the Aegean Sea which might prejudice negotiations."

Such discussions on the delimitation of the continental shelf did start but were broken off in 1981—by the Turks, according to Athens, by Mr Andreas Papandreou, the Greek Prime Minister, after the election of his Socialist government in the same year, according to Ankara. As a result, say the Greeks, the Berne Agreement is no longer operative.

This interpretation has been used by the Greeks as a justification for their resumption of oil-drilling and exploration in the North Aegean in what they consider to be their own territorial waters and on their own continental shelf.

The North Aegean Petroleum Company (NAPC), a Canadian-led international consortium, has been producing about 27,000 barrels a day, most of it sold to the Greek state, from the Prinos oilfield, west of Thassos, off the northern Greek coast.

Its plans to prospect east of the same island, nearer the Turkish coast, set off a series of events which, typically, were interpreted completely differently by Athens and Ankara.

The Greek Government, claiming it was concerned about the company's activities in such a sensitive region for Greek-Turkish relations, over which it wanted to have a veto, tabled a bill which would give it a majority stake in NAPC.

The Turks, on the other hand, saw the move as an escalation of the dispute over drilling rights because nationalisation would give the company the official backing of the Greek Government for its activities.

Not unnaturally, the company also protested vigorously and said it would go ahead with its planned drilling east of Thasos regardless.

It was only persuaded to change its mind after the sabre-rattling over the past few days and the despatch to the area of the Turkish oil research vessel Sismik-1, escorted by an impressive array of warships.

Behind the dispute lies Turkey's deeply-felt dissatisfaction with the existing situation — the result of its defeat in World War I—in which it is hemmed in by a long line of Greek islands just off its coast-line.

Greece claims that the estimated 3,000 islands of the Aegean, all but a small handful of which are Greek, have their own continental shelves and that this is enshrined in the Geneva Convention of 1958 and the Law of the Sea.

The Greeks also claim that they are entitled by international law to extend their territorial limits from 6 to 12 miles, but have not, so far, attempted to apply this rule.

Ankara refuses to accept that the islands near its coast have their own continental shelf and have not signed the international conventions which Athens has invoked in support of its claims.

Recourse to the International Court in The Hague, as the Greeks have proposed, has been rejected by Ankara because of disagreement over the legal basis on which the submission should be made.

It seems highly unlikely, in any case, that a purely legal judgment could satisfactorily solve what is essentially a highly complicated political problem between two countries which have never been able to overcome their age-old hostility.

Turkey will formally apply for membership of the European Community in the next few weeks, in spite of widespread diplomatic pressure to delay the move, writes Quentin Peel from Brussels.

Confirmation that Turkey would press ahead with its application was given on Saturday by Professor Ali Bozer, the Turkish Minister of State for EEC Affairs, to Mr Claude Cheysson, the European Commissioner responsible.

Today the Turkish minister is to meet Mr Leo Tindemans, the Belgian Foreign Minister currently president of the EEC Council of Ministers, at the start of a tour of Community capitals to deliver his message.

However, a plan to include Athens in the trip has been cancelled after the invitation was recently withdrawn, Prof Bozer said.

Turkey's formal letter has to be submitted to the current president of the EEC Council of Ministers, a position held by Belgium until June. After the application has been acknowledged by the member states, it is passed on to the European Commission for its opinion, a process likely to take 18 months or more.

If relations between the two countries do not improve, Turkey's application seems doomed to founder on a Greek veto, whatever the attitude of other member states.

A negative opinion from the European Commission is unlikely to be the last word. The Commission also gave a negative opinion on Greek membership, but was overruled by member states.

Taiwan to lift currency controls

By Robert King in Taipei

TAIWAN's Cabinet has decided to remove strict foreign exchange controls in a further stage of a reforms package, but it will be some time before the scope of the measure is evident.

Mr Yu Kuo-hwa, the Prime Minister, on Saturday broke what many observers saw as a deadlock between the central bank, which some weeks ago proposed radical revisions of foreign exchange laws, and conservatives within the Cabinet who fear a massive outflow of capital.

Mr Yu, while not setting a timetable for the reform, said that the Government should "suspend the controls at a time when the trade surplus is too high," while retaining the legal basis for the controls only for "use in an emergency."

The Prime Minister authorised the move in an attempt to reduce the country's huge foreign exchange reserves, now at a record \$53bn (£33.1bn) and ease pressure on the local money supply which grew by 50 per cent last month.

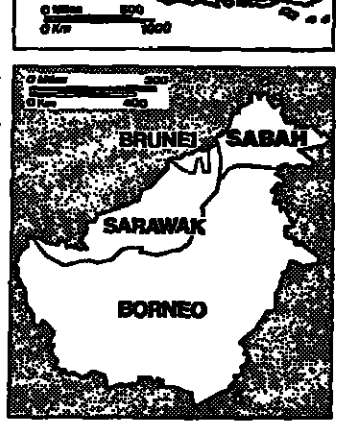
The move would also slow the rise of the new Taiwan dollar, which, at Saturday's close, stood at 34.23 to one US dollar, almost 15 per cent higher than a year ago. Some observers consider that the currency could go as high as 28 to the US dollar but traders and manufacturers fear their export-oriented business would be hit badly by even 32 to one.

Conservatives within the Government have argued that reserves would be needed for defence in the event of an attack by China—apparently the "emergency" Mr Yu referred to—although most observers agree the chance of such an attack in the near future is remote.

Critics of the Government's authority point out that a thriving black market, to which the Government has turned a blind eye for years, can move vast amounts of foreign exchange abroad with just a phone call.

Mr Yu predicted that the reforms would not reduce the foreign exchange reserves in the short term, but would aid long-term liberalisation. Finance Ministry and central bank will have to produce regulations before the reforms can be enacted.

Leading Malaysian party hesitates over expansion into Sabah



Steven Butler, recently in Kota Kinabalu, reports on restiveness about federal-state relations

THE Supreme Council of the United Malay National Organisation (Umno), the dominant party of Malaysia's ruling coalition, on Saturday postpined a decision on whether to expand its organisation to Sabah, the oil- and timber-rich state on the northern tip of Borneo.

The council was preoccupied with the April 24 Umno elections, which will determine whether Dr Mahathir Mohamad can defeat a strong challenge within the party and continue as Malaysia's prime minister. Dr Mahathir does not need yet another political tangle just now.

When the scrap over the Umno leadership is finished, however, Umno leaders will have to come to grips with growing restiveness in Sabah over the state's relationship with the Federal Government of Malaysia, an issue that has raised questions about the integration of east and west Malaysia.

Sabahans are unhappy about what they see as progressive reduction of the state's autonomy, and perceived unequal treatment. The gripes are not yet the tip of a sessionist movement, but political analysts say this could develop if the complaints are not taken seriously in Kuala Lumpur.

The complaints range over sensitive issues such as language, immigration control, and religion, with many unhappy that Islam has become the official religion of the state. Some do not like the fact that federal departments in Sabah are headed by penninsular Malaysians who come with substantial cost-of-living subsidies, like an old-style colonial administrator.

Others would like to raise the 5 per cent royalty that the state government receives from local oil extractions.

These complaints are symptomatic of a lack of trust and stem from a root problem, which is that the political and social formulas designed to accomodate a very different racial and cultural mix on penninsular Malaysia do not work the same way in Sabah.

Sabah's largest ethnic group is of indigenous Kadazans, not Malays. Many of the Kadazans are Christians, although there are a fair number of Moslems as well. Far more than in peninsular Malaysia, English has been the language of public life—not Malay—first under the rule of North Borneo Company and later as an English crown colony.

These differences were taken into account in a 20-point agreement made when Sabah joined Malaysia in 1963.

Yet earlier this year, Dr Jeffrey Kitingan, chairman of the Institute of Development Studies (IDS) in Sabah, sent a letter to the Federal Government that questioned whether the 20 points had been observed and then examined other aspects of the federal-state relationship, including federal interference in state political affairs.

Dr Kitingan sent the letter as a private citizen, but in addition to his professional position he is brother to Datuk Joseph Pairin Kitingan, the Sabah Chief Minister, and the letter is unlikely to be ignored. The Chief Minister has since commissioned the IDS to conduct a systematic study of federal-state relations.

The tension between the state and federal government grew in the combative atmospnere following Datuk Pairin's rise to power. Datuk Pairin is a Christian Kadazan and his political party, the Parti Bersatu Sabah, (PBS) is sometimes perceived as catering principally to Christian Kadazan interests, even though many Kadazan Moslems also voted for the PBS. Perhaps most important is the perception that Sabah's indigenous people triumphed politically over external forces although this is grossly oversimplified.

These feelings were intensified by the violence that followed the first PBS electoral victory in 1985, and which lasted until new elections were called in 1986, when the PBS won a 2/3 majority control in the state assembly and put an end to doubts about its mandate.

The Umno advance into Sabah was to be on the back of the United Sabah National Party (Usno), a party seen to represent Moslem interests and which was routed by the PBS in the polls. Umno was to help revitalise Usno by taking it over.

The Umno entry however was stalled by the possibility that if Usno merged into Umno, by-elections might be triggered in all eight constituencies where Usno had seats. Besides other technical problems, there remains confusion over Umno's identity, since Umno has defined itself as a Malay party, while many Usno supporters are non-Malay Moslems.

The result is that a thicket of thorns might greet Umno as it expands to Sabah, accompanied by an embarassing political failure that could further poison federal-state relations. Umno, however, must also be mindful of the consequences of success, since a strong Umno presence in Sabah could further fuel suspicions that Sabah has become nothing but a colony of peninsular Malaysia.

The political violence in Sabah just one year ago has made an unsettling precedent.

Dr Richard Gunting, Executive Director of the IDS, says that the questions about federal-state relations have been raised in a positive spirit. It remains to be seen whether they will be received that way.

Zambia reintroduces auctions of foreign exchange

BY VICTOR MALLET IN LUSAKA

ZAMBIA, hit by a wave of pay strikes from teachers, doctors and nurses, resumes its foreign exchange auctioning this weekend after a two-month break which has seen renewed protests against economic austerity, left businesses starved of vital imports and placed further strains on the country's relations with the International Monetary Fund (IMF).

The reintroduction of the weekly auction, an important part of the stalled IMF recovery programme for Zambia, is being welcomed by Western donor countries. They see it as a defeat for anti-IMF government officials who prompted the suspension the the auction system eight weeks ago, and they regard the modifications to the foreign exchange regime—including a new favourable rate for government external debt servicing and procurement of medical and educational supplies—largely as a face-saving device.

But the auction of \$8m on Saturday by no means marks the end of Zambia's dispute with the IMF, and an overall agreement still seems a long way off. The IMF is owed more than \$150m by Zambia in arrears, and although Zambia says it can clear these with commercial bank bridging loans secured on the basis of an IMF pact, the arrears are rapidly approaching the level at which they will exceed available new IMF money and therefore scupper the bridging loans.

Zambia is also being sharply criticised by the IMF for its unwillingness to reduce its yawning budget deficit or place stricter controls on its money supply, while individual Western donor countries are exasperated by Zambia's inability to pay even nominal sums to reduce arrears on soft loans.

Some diplomats speculate that Zambia's foreign exchange shortage might have been worsened by its recent decision to divert copper exports away from South African ports and so increase use of inefficient ports in Tanzania and Mozambique.

One way of reducing the budget deficity, favoured by the IMF, would be to cut food subsidies which were hurriedly reintroduced by president Kenneth Kaunda last year to defuse widespread anti-government rioting, but Dr Kaunda is in no mood to antagonise his long-suffering citizens any further.

Striking teachers and medical staff are demanding more pay to cope with the soaring cost of living, and nurses have called for danger money when they deal with the many Zambians who suffer from AIDs. The political temperature has been further raised by an incident in which a group of youths, thought to be militants of the ruling party, assaulted nurses in Lusaka in a revenge attack for the strikes.

SHIPPING REPORT

Dry cargo rates increase

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

DEMAND on the dry cargo market continued to strengthen last week, largely as a result of continued Soviet and Chinese grain purchases.

Denholm Coates, the London shipbrokers, said the grain rate from the US Gulf to Japan had climbed to around \$16.50 per ton, while the US Gulf/Continent rate was around £8.75. The rate from the US north Pacific to Japan was said to be around £10.75.

Brokers said timecharter rates for Panamax vessels—the largest able to transit the Panama Canal—were between \$7,000 and \$7,700 for Atlantic round voyages, with as much as \$7,000 being paid for an Australian round voyage.

The market was said to be very active on the Great Lakes, with several charterers fixing vessels for Lakes round voyages at between \$4,000 and \$4,200.

In the tanker market, brokers said rates had moved ahead a few points as a result of increased demand from charterers. E. A. Gibson, the London brokers, warned, however, that returns to owners were hardly improved because of increasing fuel costs and the fragile US dollar.

Brokers said there was demand for vessels of most sizes in the Middle East, and a number of the very large crude carrier (VLCCs) awaiting cargoes were said to have been fixed.

Cocoa delegates hammer out rules on buffer stock

BY DAVID BLACKWELL

THE International Cocoa Organisation (ICCO) has agreed on the rules to govern its buffer stock after two weeks of negotiations in search of a compromise acceptable to consumers and producers.

Delegates to the conference in London decided on Friday that the rules they had so patiently hammered out should take effect immediately. Cocoa prices are hovering around the lower interventions, or "must-buy" price of 1,600 SDRs. Below that figure the buffer stock manager must defend the price.

It will be two to three weeks before he can start buying—the time needed to assess the market and organise a communications system.

The International Cocoa Agreement was negotiated last July, and came into effect at the end of January. But the buffer stock, which is used to keep cocoa off the market and stabilise prices, could not operate because of disagreement over the rules.

The disagreement covered three main points:

- Should the buffer stock manager pay different prices for different qualities of cocoa?
- Should he buy both on the spot market and for forward delivery?
- Should he buy only from members of ICCO, or also from non-members?

The rules provide a fixed set of differential prices for cocoa from different origins; allow for purchases on the spot and forward markets and permit the purchase of up to 15 per cent of the total stock from non-members. Buying will be by means of an offer system, as against a posted price system.

The buffer stock manager's "can-buy" zone ranges from 1,600 to 1,655 SDRs. He has inherited a stock of 100,000 tonnes from the previous agreement, and has a limit for the stock of 250,000 tonnes. Above this level producer countries start to store cocoa rather than release it onto the market.

World Economic Indicators

FOREIGN EXCHANGE RESERVES (US\$m)

	Jan. 87	Dec. 86	Nov. 86	Jan. 86
US	17,982	17,328	16,785	13,318
Japan	46,693	37,657	37,419	22,769
W. Germany	56,311	45,866	45,792	39,653
UK	15,341	14,886	14,897	9,834
Italy	19,426	18,116	18,106	12,204
Belgium	4,957	4,630	4,539	3,837
Netherlands	10,199	9,583	10,224	9,367
	Dec. 86	Nov. 86	Oct. 86	Dec. 85
France	28,428	28,222	29,960	24,319

Source: IMF

THIS NOTICE DOES NOT CONSTITUTE AN OFFER FOR SALE AND THE STOCKS LISTED BELOW ARE NOT AVAILABLE FOR PURCHASE DIRECT FROM THE BANK OF ENGLAND. OFFICIAL DEALINGS IN THE STOCKS ON THE STOCK EXCHANGE ARE EXPECTED TO COMMENCE ON MONDAY, 30TH MARCH 1987.

Issues of Government Stock

The Bank of England announces that Her Majesty's Treasury has created on 27th March 1987, and has issued to the Bank, additional amounts as indicated of each of the Stocks listed below:

£150 million 2½ per cent INDEX-LINKED TREASURY STOCK, 2011
£100 million 2½ per cent INDEX-LINKED TREASURY STOCK, 2024

The price paid by the Bank on issue was in each case the middle market price of the relevant Stock at 3.30 p.m. on 27th March 1987 as certified by the Government Broker.

In each case, the amount issued on 27th March 1987 represents a further tranche of the relevant Stock, ranking in all respects pari passu with that Stock and subject to the terms and conditions applicable to that Stock, and subject also to the provision contained in the final paragraph of this notice; the current provisions for Capital Gains Tax are described below.

Copies of the prospectuses for the Stocks listed above, dated 22nd January 1982 (as amended by the supplement to the prospectus dated 9th March 1982) and 19th December 1986 respectively, may be obtained at the Bank of England, New Issues, Watling Street, London, EC4M 9AA.

Application has been made to the Council of The Stock Exchange for each further tranche of stock to be admitted to the Official List.

The Stocks are repayable, and interest is payable half-yearly, on the dates shown below (provision is made in the prospectuses for stockholders to be offered the right of early redemption under certain circumstances):

Stock	Redemption date	Interest payment dates
2½ per cent Index-Linked Treasury Stock, 2011	23rd August 2011	23rd February 23rd August
2½ per cent Index-Linked Treasury Stock, 2024	17th July 2024	17th January 17th July

Both the principal of and the interest on the Stocks are indexed to the General Index of Retail Prices. The index figure relevant to any month is that published seven months previously and relating to the month before the month of publication. The index figure relevant to the month of issue of 2½ per cent Index-Linked Treasury Stock, 2011 is that relating to May 1981 (294.1); the equivalent index figure for 2½ per cent Index-Linked Treasury Stock, 2024 is that relating to April 1986 (385.3). These index figures will be used for the purposes of calculating payments of principal and interest due in respect of the relevant further tranches of stock; as provided for in the prospectuses for the two Stocks, the calculations will take account of the revision of the index to a new base of January 1987=100 (on the old base the index for January 1987 was 394.5).

The relevant index figures for the half-yearly interest payments on the Stocks are as follows:

Interest payable	Relevant index figure: Published in	Relevant index figure: Relating to
February	July of the previous year	June
August	January of the same year	December
January	June of the previous year	May
July	December of the previous year	November

The further tranche of 2½ per cent Index-Linked Treasury Stock, 2011 will rank for a full six months' interest due on 23rd August 1987. The further tranche of 2½ per cent Index-Linked Treasury Stock, 2024 will rank for the interest payment of £1.1809 per cent to be made on 17th July 1987.

2½ per cent Index-Linked Treasury Stock, 2011 is specified, and 2½ per cent Index-Linked Treasury Stock, 2024 will be specified, under paragraph 1 of Schedule 2 to the Capital Gains Tax Act 1979 as a gilt-edged security (under current legislation exempt from tax on capital gains, irrespective of the period for which the Stock is held).

Government statement

Attention is drawn to the statement issued by Her Majesty's Treasury on 29th May 1985 which explained that, in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, these further tranches of stock are issued or sold by or on behalf of the Government or the Bank; that no responsibility can therefore be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.

BANK OF ENGLAND
LONDON

27th March 1987

Austin Rover to sign long-term component deals

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

AUSTIN ROVER, the state-owned volume car company, plans to designate "preferred suppliers" under a partnership system which it claims will reduce uncertainty and give the UK components industry a "tremendous opportunity" to expand.

These suppliers will be given Austin Rover business "in perpetuity" as the existing system of short-term contracts for parts is phased out.

"We aim to give suppliers confidence *in the future*, confidence to press ahead with research and development, new investment and the introduction of advanced technology," said Mr Andy Barr, the car group's managing director for operations.

Austin Rover would benefit from the improved quality and cost reductions that would flow from such investment. Mr Barr also gave a commitment to the UK industry that it would not suffer from Austin Rover's continuing collaboration with Honda, of Japan.

He pointed out that the UK content of Austin Rover's purchases of materials was running at 87 per cent. This was worth more than £800m. "We intend to maintain that very high local content. Our future collaboration with Honda won't do the UK any harm."

The Austin Rover initiative will certainly be welcomed by an industry that has slashed manpower and capacity in recent years under the pressure of falling UK vehicle assembly and mounting imports.

Suppliers have expressed their concern about prospects and Austin Rover's collaboration with Honda both privately to the Government and in evidence to the House of Commons trade and industry committee which is inquiring into the condition of the industry.

The chief executive of one of the major suppliers said last night: "It is difficult to exaggerate the significance of this Austin Rover strategy. If the company is as good as its word – as so far it seems to be – the changes go far beyond anything done by Ford or General Motors."

Mr Barr said it was only possible to move now to the policy of preferred suppliers because of the progress made in recent years in improving the quality and efficiency of the components companies.

Austin Rover had cut the number of suppliers from 1,200 to 700. Of these, whereas only 30 per cent had been classified as Grade A in terms of quality and reliability of products in 1980, the proportion had now climbed to more than 80 per cent.

Starting next week, Austin Rover will be calling in suppliers in batches of around 25 for whole-day briefing sessions conducted by directors and the Department of Industry to explain both the new system and the importance of quality.

Preferred suppliers would be selected according to whether they were commercially viable; competitive on price in international markets; and in the forefront (though not necessarily the leader) of research and development.

Agreements would be drawn up for the contract to continue "in perpetuity." Mr Barr explained that Austin Rover was looking for a genuine partnership and a working relationship under which both parties would work to the common aim of producing "the best product at the best price."

Motor trade balance widens, Page 6

Kinnock and Reagan fail to bridge the great divide

Michael Cassell assesses Labour's defence mission to the Oval Office

WHEN Mr Neil Kinnock, the Labour Party leader, strode into his first press conference on arrival in the United States last Thursday, he peremptorily dismissed suggestions that his planned meeting with President Reagan could be alikened to walking into a lion's den.

In the first of many upbeat, confident and relaxed performances in the next 36 hours, he denied claims that the US administration was increasingly alarmed about his party's unilateralist defence policy.

There was, he acknowledged, a "divergence" of views, but any other interpretation would underestimate both the US government's maturity and its readiness to acknowledge the shifting sands on which the defence issue now stands.

When he emerged next day from his "polite and businesslike meeting in the Oval Office, he certainly did not show any of the signs of someone who had been savaged by a pride of heavywights which, apart from the President, included vice-president Bush, Mr George Shultz, the Secretary of State, Mr Caspar Weinberger, the Defence secretary, Mr Frank Carlucci, the National Security Adviser and Mr Howard Baker, the President's news chief of staff.

The meeting had been useful and constructive with both sides having an equal say. The President's central point had been to express "concern by implication" about the coherence of the Alliance, but he had freely volunteered his determination not to intervene in British political issues.

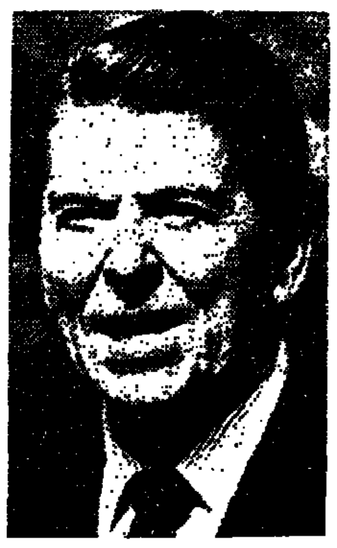
But perhaps it was immature, or just characteristically optimistic, of Mr Kinnock to imagine that he was going to escape so lightly. For if the Oval Office session had been, in the Labour leader's own words "calm and gentle," US officials quickly set out to inflict some deep and damaging wounds after he had left the den.

A brief but pointed statement from the White House wasted neither words nor the opportunity to rubbish Labour's defence strategy. The President had said he did not agree with it and believed it would weaken Nato, *undermine East-West* relations and undercut the US negotiating position at the Geneva arms talks.

Full details of the White House line reached Mr Kinnock during the afternoon, minutes after he had been taken onto the floor of the Senate, which temporarily suspended business to welcome him and to applaud his arrival.

His initial reaction on the steps of Capitol Hill was one of genuine surprise, and while he was clearly under an obligation to put the best gloss on his session with the President, he appeared taken aback by the interpretive gap dividing reports of the Oval Office meeting.

Mr Neil Kinnock: 'divergence of views'



President Reagan: 'concern for Nato'

On Friday's overnight flight back to London, Mr Kinnock, Mr Denis Healey, Labour's foreign affairs spokesman, and the small Labour team, had time to celebrate Mr Kinnock's birthday and to digest what they believed looked increasingly like a "stitch up." They emphasised that their own notes of the meeting bore little relation to the White House version of events.

The controversy has already extended to accusations that Downing Street played a hand in setting up Mr Kinnock, in order to enable the President to knock him down just before the Prime Minister left for Moscow – a theory which Downing Street has vehemently denied.

But the only real question to be answered is why Mr Kinnock and his team should have expected their visit to have any other ending, and why they persisted with the US mission after a visit last year which is not best remembered for its achievements. It is understood that Mr Healey himself at one stage thought it might be better for Mr Kinnock not to go.

But the Labour leader passionately believes in his party's defence strategy and, as he said repeatedly during the visit, he did not intend to be apologetic or defensive and wanted the trans-Atlantic differences aired out in the open.

There was also a belief that, in an election year, a meeting with the President would be a useful exercise in statesmanship. While photo-opportunities might have been restricted at the White House, Labour Party cameras were busy recording the leader on his visits about town, no doubt for use in future party political broadcasts.

But by the time he saw the President to spell out a defence policy for which he knew would find little or no support, he had already openly attacked the "special, special relationship" between Mrs Thatcher and the President, although he was careful not to blame Mr Reagan.

Before leaving home he had attacked the Star Wars programme which the President was later moved to tell him represented the "biggest hope the free world has."

As a counterbalance, his most recent statements suggesting a softening of the deadlines for the removal of Cruise missiles from Britain, so as not to upset the Geneva talks, might have been welcomed as a not insignificant gesture by the US administration but the issue was not even raised.

He was also strangely defensive when it came to describing the party's policy as unilateralist. It was not, he said, a gesture of disarmament, but "a question of achieving the best defence value for the resources available."

But despite what could be interpreted as conciliatory gestures for US consumption, Mr Kinnock's plan to scrap nuclear weapons and to increase conventional forces remains firm and fast. The problem was that he confronted allies whose own opinions remain as resolute as they are different to those of the Labour party.

No end of assurances about a continuing commitment to Nato will convince the current US administration that Mr Kinnock is on the right wavelength. They believe that recent events on the arms control front have emanated from a strength gained from the possession of nuclear forces which a Labour government would give away.

No end of speculation about who said what in the Oval Office will alter the perception of that divide. The visit will only have served to forcefully underline it.

Fight for lost support, Page 6

Employer doubts on profit-related pay

BY CHARLES LEADBEATER, LABOUR STAFF

THE INTRODUCTION of profit-related pay still faces considerable obstacles in spite of the Government's proposal to allow part of such payments to be exempt from income tax, the Conferation of British Industry (CBI) warns in a report published today.

The Chancellor of the Exchequer announced in the budget this year that half of profit related payments will be exempt from tax up to a limit of £1,000 or 10 per cent of pay whichever is lower. Profit-related pay schemes will have to cover 80 per cent of a company's employees, for more than a year with at least 5 per cent of employees' total pay provided by profit-related payments.

The CBI's employment affairs bulletin says that while the tax relief will make profit-related pay schemes attractive, this will be offset by the Government's proposal to remove the exemption from National Insurance payments which applies to profit-sharing schemes administered by trusts.

The bulletin suggests that units within companies where profit-related pay schemes could operate might not have the audited profit figures required by the Government's proposals.

While a growing number of companies want to tie pay more closely to performance many do not regard audited profits as an adequate measure of an employee's performance.

Employment Affairs; CBI, Centre Point, 103 New Oxford Street, London WCIA IDU, annual subscription £70.

Unions attempt to stem membership losses

BY PHILIP BASSETT, LABOUR EDITOR

BRITAIN'S two large general unions are both to establish separate studies of workplaces in order to help increase union involvement and boost organisation and membership recruitment.

Leaders of the TGWU transport workers want to set up a computer database of local labour market information, and the GMBU general union is asking all its members to conduct a "workplace audit" to increase information about the union's strength. Both moves are attempts to try to *stem the drop in* memberships and to extend into new and unorganised areas of the workforce.

The TGWU's intent is one of a series of initiatives flowing from a two-day union strategy conference at Eastbourne at the weekend.

A background paper for the conference says that the union must target its recruitment efforts, find out where the union's membership is concentrated, and from that push its main efforts into areas of little or no union membership.

Labour fights to recover lost support

BY JOHN HUNT

THE LABOUR Party today begins a campaign to build up its support and improve its position in the opinion polls after last week's Gallup poll which put it third behind the Alliance.

The campaign will concentrate on attacking the Government rather than the Social Democratic Party (SPD) and the Liberals in the run-up to a general election (this year or next) and local elections on May 7.

Today a Labour Party Trade Union Congress (TUC) statement will be *launched outlining a joint* stategy. It will highlight the Government's record on unemployment and the need for co-operation between a Labour Government, trade unions and employers to stimulate growth and create jobs.

Taking part in the joint press conference will be Mr Neil Kinnock, Labour leader, Mr Norman Willis, general secretary of the TUC and Mr Roy Hattersley, Labour's deputy leader.

The London Labour Party is also taking action to counter the extremist image which the Tories have pinned on it. A press conference will be held today launching a campaign to bring back a London-wide authority, and to emphasise what it sees as the achievements of the Labour-controlled London boroughs.

A private poll has warned Labour that it is running behind the Conservatives in London. Next month Labour starts a big poster campaign, largely concentrated on marginal seats, attacking the Government and stating its alternative policies.

Over the weekend Labour shadow ministers made a concerted attack on the Government over a whole range of issues.

Mr Bryan Gould, the party's campaign co-ordinator, said that Mrs Thatcher's aim of eliminating socialism heralded a further attempt to suppress any dissent from her views. Her real intention was to undermine publicly funded education and the proper provision of pensions.

He predicted that she would make a "frontal assault" on the values of millions of voters who did not think of themselves as socialists.

Dockyard unions take minister to court

By Charles Leadbeater

TRADE UNIONS, worried over the effect on members of privatisation of the Royal Naval Dockyards at Devonport and Rosyth will seek a High Court declaration today that the Secretary of State for Defence has illegally failed to consult them about plans.

The unions will be supported by Dr David Owen, leader of the Social Democratic Party, and MP for Plymouth, Devonport.

Dr Owen's involvement follows a stream of complaints from constituents over the Government's handling of privatisation. He believes many details of a plan to bring in a private managing agency have not been adequately finalised, leaving dockyard workers unsure of their eligibility for civil servicye redundancy and pensions payments.

Dr Owen says the Ministry of Defence's failure to answer many of the detailed queries raised by dockyard workers is inexcusable.

He plans to support the union's case for delaying the tranfer of dockyards management to allow greater consultation with the six unions involved.

Deficit on motor industry trade grows by over £1bn in year

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

BRITAIN's adverse balance of trade in motor industry products worsened last year by more than £1bn or 41 per cent compared with 1985 to a record £3.9bn.

Trade in parts and accessories dived into the red for the first time. There was a negative balance of £346.6m last year compared with a positive one of £4.1m in 1985.

The fast-growing imbalance in Britain's car business with the rest of the world caused an overall motor industry trade deficit for the first time in 1979. The commercial vehicle account followed into the red in 1984.

Now it is only in trade in "other motor products" – agricultural tractors, dumpers and dump trucks, trailers, semi-trailers and caravans, industrial works trucks and tractors and their parts and freight containers – that remain in the black.

The Society of Motor Manufacturers and Traders (SMMT) which compiled the figures from Customs and Excise data, points out there will be a considerable time lag before last year's improvement in UK competitiveness will be reflected in improved trade figures.

It gives a warning that export volumes are not likely to increase substantially in the short term "because of price rigidity, the need to re-establish dealer networks and as manufacturers take advantage of the improved competitive position to increase margins".

On the other hand, importers will not, in the short term, give up market share and may reduce margins of profit rather than increase prices.

There will also be a substantial delay before UK *component* producers can reap the benefits of the devalued pound. Meanwhile, component imports must be expected to grow because many UK-built vehicles incorporate foreign parts.

In addition, the number of imported vehicles in use in the UK – now half of all those on the road – is increasing and boosting the demand from the after-market foreign parts and accessories.

Car imports did not grow in volume terms last year (they remained at 1.07m) as the major importers, Ford and General Motors, the Vauxhall group, out the number they brought in from their continental factories.

But car imports increased invalue by 15 per cent compared with 1985. This suggests importing companies have been absorbing some of the increased cost resulting from sterling's depresciation because the pound fell last year by about 20 per cent compared with EMS currencies and the yen.

UK Trade in Motor Industry Products

	1985	1986
	Exports (fob)	
Cars	1,274.3	1,312
Cvs up to 3 tonnes gvw	58	73
Other cvs	351.4	269.3
Parts and accessories	2,597.8	2,752.1
Other products	746.6	853.9
	Imports	
Cars	4,153.8	4,791.7
Cvs up to 3 tonnes gvw	239.7	295.5
Other cvs	495.7	552.6
Parts and accessories	2,513.7	3,098.7
Other products	401.5	399.2
	Trade balance	
Cars	-2,879	-3,479
Cvs up to 3 tonnes gvw	-181.7	-222.5
Other cvs	-144.3	-283.3
Parts and accessories	84.1	-346.6
Other products	345.1	454.7
Total	-2,788.3	-3,887.4

Source: SMMT from Customs and Excise data.

Car exports fell in volume, from 240,247 in 1985 to 201,411, but increased in value by 3 per cent reflecting the fact that the UK is exporting more high-priced Jaguars, but fewer car kits from Peugeot-Talbot to Iran.

DAVID WATT

Outstanding British political journalist

DAVID WATT, who died on Saturday at the age of 55, was *one of the* outstanding political journalists of his generation. As Washington correspondent and later an assistant editor of the Financial Times, he made an invaluable contribution to this newspaper's coverage of domestic and international politics. The paper's reputation in these fields owes a great deal to Watt's writings in the 1960s and 1970s.

He caught polio when he was young at a time when the disease had been almost eliminated and, although he recovered, sometimes he still suffered from the pain. He died when he picked up a live power cable blown down by the wind at his Oxfordshire home.

He became a journalist in the great days of the Spectator when a talented graduate could be picked up from the University and become theatre critic or Common Market *correspondent* (and quite possibly both) overnight. He used sometimes to regret that in his articles he never put in enough jokes, although he could be sharply witty in private.

No-one who knew him then or later could doubt the intense seriousness with which he rightly took his writings. He would have liked to have been an editor – of the Economist or the Observer – but somehow that never happened and a side of him that may have been brilliant was never allowed to flourish.

Among the politicians he wrote about, however critically, he always had an enormous respect. When later in life he moved to the Royal Institute of International Affairs (Chatham House) and had to re-learn *foreign policy all over again*, he achieved a similar respect in the international community. Recently he was writing a regular Friday column in The Times which was required reading for students of politics.

David Watt came to the attention of the then editor of the FT, Gordon Newton, as a result of his work for the Daily Herald in Brussels. As the FT's Washington Correspondent from 1964-67 he gave a new political thrust to the FT's American coverage. This had previously been centred on New York.

When he returned from Washington, Watt was the natural choice to succeed Ronald Butt as chief political commentator. Butt had started the Friday "Politics Today" column and this became Watt's main outlet for the next 10 years – although he also wrote some excellent leaders and features on political themes.

Although most of his time at the FT was spent in writing about politics, his contribution to the paper went much further than that. As an Assistant Editor, he played a full role in *helping to manage* the paper. In particular, he had a special responsibility for the survey programme and he played an important part both in widening the range of FT surveys and improving their quality and comprehensiveness.

Above all, Watt's temperament, interests and experience made him almost ideally suited for his part in the evolution of the Financial Times during the 1960s and 1970s. During this time the paper was broadening out from economics, finance and business to play a stronger political role; it was also increasingly seeing itself as an international rather than a purely domestic newspaper. Watt's internationalist instincts, coupled with his rational, moderate *and non-ideological* approach to politics, embodied much of what the FT was trying to achieve.

RAY MAUGHAN

Respected City writer

RAY MAUGHAN, who died last Friday evening at the age of 38 after a long battle against cancer, will be sadly missed by his many friends *and contacts both in journalism* and in the City of London.

He was recently assistant city editor of the Sunday Telegraph, but previously he spent six years on the Financial Times, where he was mainly engaged in his favourite activity as a reporter of City affairs, especially takeovers, an area in which his knowledge was second to none.

Maughan's characteristic friendliness and good humour were astonishingly undimmed by the tragic impact of disease during the past two years. He endured stomach surgery in the summer of 1985 with *seemingly unaffected optimism* and cheerfulness.

He reported most of the major industrial takeover stories of the early 1980s, and moved *sure-footedly* in an area of journalism which requires a great deal of discretion in the handling of confidential information.

Despite a nose for news, he never allowed the pressure to break a story first to tempt him to betray a contact. *This meant* that he was very highly respected by, for example, the corporate finance executives of merchant banks.

He leaves a wife, Gay and three small children, Lewis, Natalie and Edmund, the youngest being a baby of only seven months.

هكذا من الأصل

Short nears deal with de Havilland of Canada

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

SHORT BROTHERS, the Belfast-based aerospace manufacturer, is close to launching a joint programme with the Boeing-owned de Havilland Aircraft Company of Canada (DHC) for a new short-range computer and regional airliner.

The aircraft would be designed to enter airline service in 1991, initially complementing, but eventually replacing, the existing aircraft built by the two companies, such as the DHC Dash 8 and Short 360 36-seater turbo-propeller aircraft.

The two companies signed an agreement to collaborate at the Farnborough air show last September, because of the increasing competition in an increasingly crowded market for low-cost, short-range, 36-plus seater commuter, regional and local-service airliners.

Since then, they have been working to determine the potential market for a new airliner, and what kind of aircraft it ought to be.

A joint statement by DHC and Short Brothers says that they are "now in agreement on basic parameters for the new aircraft."

They are aiming at the "low end of the passenger range for the aircraft, while combining a wide-bodied cross-section for optimum passenger comfort.

"At the same time Short Brothers and de Havilland are dedicated to ensuring the lowest possible direct operating costs to provide an economic, cost-effective product for airline and utility applications."

A joint project team from the two companies has begun testing market responses for a new aircraft "and will now accelerate interviews with key operators around the world for the next few months to fine-tune the market assessment."

Provided the responses are satisfactory "a decision to launch a joint programme will be taken later this year," with a view to entry into airline service by 1991.

Short Brothers had originally signed a collaborative agreement on new regional and commuter airliners with Embraer of Brazil, also a major manufacturer of such aircraft, but that agreement effectively lapsed because of Embraer's desire to draw closer to other South American aircraft builders.

Managers' basic pay up 6.3%

BY MICHAEL SKAPINKER

UK MANAGERS' basic pay rose by an average of 6.3 per cent in the year to February 1987, according to a report published today by Reward Regional Surveys.

The increase meant that the average basic managerial salary broke the £12,000 level for the first time. The calculations exclude salaries paid to directors of companies.

The survey found that companies expect a 5.5 per cent increase in managerial salaries over the next 12 months. The average management basic salary of £12,000 concealed marked regional variations.

The median managerial salary in London was £14,171, followed by Scotland at £12,811 and the south east of England (excluding London) at £12,480. The lowest median managerial pay was in the West Midlands at £11,077.

Although managers in London and the south-east of England were paid above the national average, the survey found that they were generally under-compensated for the higher cost of living in those areas.

Salary levels in London were 17.1 per cent above the national average while the cost of living in the capital was found to be 33.2 per cent above the national average. Salary levels in Scotland, on the other hand, were 4.2 per cent above the national average in an area with living costs 1.3 per cent less than the national average.

The highest-paid senior managers in the UK were general managers on a median £24,285, followed by advertising/public relations managers on £23,603. The lowest-paid senior managers were found to be chief surveyors, with a median salary of £16,231.

Reward: Salary and Living Cost Report, publishing by Reward Regional Surveys, Reward House, 1 Mill Street, Stone, Staffs ST15 8BA. £90.

Job mobility aid urged

EMPLOYERS are pressing the Government to tackle the problem of high property prices which are preventing some people moving to find jobs.

Mr Derek Palmer, policy adviser on re-location to the Confederation of British Industry (CBI) said: "The problem of spiralling house prices is the biggest single factor in preventing labour mobility and there is no sign of the current surge abating."

Clothing imports rise 19% in year

By Christopher Parkes, Consumer Industries Editor

THE RISE of sterling against Far Eastern currencies helped boost imports of clothing into the UK last year by 19 per cent, according to a report from the British Textile Confederation.

Balancing this against export successes in the European Community, where the relative weakness of sterling came into play, the textile and clothing industries performed well in a difficult year, Mr Harry Leach, confederation president, said in a commentary on the report.

Volume exports rose 4 per cent for finished clothing and 1 per cent for textiles, in spite of reduced sales in the US and Middle East.

Calling for more rigorous monitoring of the Multi Fibre Arrangement (MFA), an international pact governing trade in textiles, Mr Leach said volume imports form MFA participants had grown by 21 per cent last year.

The confederation called for urgent action to cope with recent rapid growth in imports of clothes made with ramie – a fibre extracted from a nettle-like plant grown in the Far East.

Mixed in certain proportions with other fibres, these products are exempt from MFA quotas. There was a surge in imports during the final three months of last year, the report says.

Suppliers in Hong Kong, South Korea and Macao stepped up shipments to such an extent that Britain imported almost 315,000 sweaters containing ramie in 1986 compared with 56,000 in 1985. Woven products containing ramie were starting to flow in.

The best markets for clothing exports last year included West Germany, which bought 31 per cent more than in 1985, spending a total of £143.4m.

However, sales to the US, the UK industry's second-best market after Ireland – up 9 per cent at £206.2m – dropped 11 per cent to £143.7m.

Strong increases were also recorded in France, Belgium, the Netherlands and Norway.

Trends in textile and clothing trade in 1986. £25, from British Textile Confederation, 24 Buckingham Gate, London SW1E 6LB.

UK NEWS

CURRENCY CHANGES FAIL TO HELP BRITISH PRODUCERS

Machine tool imports jump to £381m

BY NICK GARNETT

IMPORTED MACHINE tools appear to have taken a larger share of the UK market last year, against the trend of the previous three years, and despite currency changes which should have helped British producers.

According to provisional estimates from the Machine Tool Trades Association, the total consumption of machine tools in the UK rose to almost £750m last year, against £640m in 1985.

Imports jumped from £304m to £381m, indicating that machine tools manufactured outside the UK took more than 50 per cent of the domestic market for the first time since 1982.

Exports of UK-produced machine tools, including re-exports, remained almost static last year at £269m, only £3m higher than in 1985.

However, total output of the British machine tool industry during the first nine months of 1986 – the latest period for which statistics have been collected – rose to £441m from the £419m in the first three quarters of the previous year.

A great deal of caution has to be exercised with these figures which refer only to metal-cutting machine tools.

In rise in the value of the yen and D-Mark might have had some distorting effects, for example, by boosting the sales figures for imports.

West Germany retained its position as the leading exporter of machine tools to the UK measured in terms of sterling sales. It was followed by Japan, the US and Switzerland.

Apart from that, the fourth quarter UK production figure is also an estimate. This will affect the overall UK consumption figure which is based on British production, less exports, plus imports.

Nevertheless, the figures seem to show that British producers have failed so far to take advantage of the beneficial currency changes

The one positive area of growth for UK producers in Britain itself are computer numerically controlled (CNC) machining centres. Demand for machining centres, which are made by a number of expanding UK-based producers, has been rising but imports by unit volume appear to have fallen last year by more than 20 per cent.

This could indicate that British producers have been losing out mainly in conventional non-CNC machines.

Customs and Excise, which provides the figures used by the machine-tool makers, also produces statistics on unit imports and exports, but these are notoriously unreliable because of the counting system employed.

These figures include the statistic that the number of machine tools imported from Japan rose by a third to more than 4,000 units, although the total value was only 10 per cent higher in sterling terms.

CU sets up Eurofunding facility

BY STEPHEN FIDLER

COMMERCIAL UNION, one of the top five composite insurance companies in the UK, has launched an expanded note financing in the international markets enabling it to issue short-term commercial paper and medium-term notes to a total value of Ecu 750m ($850m) in a variety of currencies.

The move illustrates the way British financial instititions are moving away from bank loans and into more creative and flexible financing.

The increased reliance of British financial institutions on international financial markets was underscored only the day before when two building societies, Abbey National and the Bristol and West, announced plans to raise up to $1.25bn in the foreign currency certificates of deposit.

Commercial Union said the financing "forms part of our European financial services strategy enabling us to take advantage of the competitive rates available."

The programme allows the company to issue commercial paper, short-term tradeable IOUs, in the domestic sterling market, as well as in dollars and in the domestic Dutch market through its Delta Lloyd subsidiary.

It will be able to issue medium-term notes, which will be listed in the London stock exchange, into both the Eurodollar and domestic sterling markets.

Mr Tony Wyand, commercial Union's Director and General Manager, said: "These funding facilities will provide a platform for the company's continued development in the financial services sector in Europe."

It appointed five dealers for the programme, Barclays de Zoete Wedd, Credit Suisse First Boston, Goldman Sachs International, Swiss Bank Corporation International and S. G. Warburg.

Row over mobile telephone channels

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

OFTEL, the regulatory agency for the UK telecommunications industry, has been called in to adjudicate on a row between BT Mobile Communications and Racal Vodafone, the two UK cellular mobile telephone groups, over an appeal for the release of new transmission channels.

Vodafone has asked for access to the channels, which had been reserved for the proposed new pan-European digital mobile service, to tide it over a temporary capacity shortage in its London transmission area.

BTMC, however, has objected vigorously to the request, arguing that Vodafone is trying to gain an unfair advantage by avoiding further investment to raise capacity in its current network. It also claims that the release of the channels, even on a temporary basis, could prejudice the delicate final stages of negotiations over the establishment of the European mobile radio system.

Behind the battle is an arrangement established at the launch of the UK cellular system under which 400 of the available transmission channels were reserved for the pan-European service.

APPOINTMENTS

Changes at Whitbread

Mr Richard Simpson has been appointed finance director of the retail division of Whitbread & Co from May 1. He succeeds Mr Norman Sprunt who has moved to Whitbread headquarters at specialist director, corporate development. Mr Simpson was finance and property director of Whitbread Inns, the company's managed house division since its formation in 1984.

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Kingsfield Associates has appointed Mr Christopher White managing director and Mr Iain Wright, Mr Anthony Burns and Mr David Hawkins as directors.

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Deloitte Haskins and Sells has made a number of admissions to partnership from May 1. In the London office, Mr Francis Booth, Ms Lynne Dolby and Mr George Eccles all become partners. Mr Hugh Jagger is admitted to partnership in the management consultancy division's business communications group. Mr Jim McMahon and Mr Rick Helsby both of whom joined Deloittes from the Inland Revenue are admitted to partnership. Ms Denise Catterall becomes a partner in the tax department in Deloittes' Cambridge office.

CAISSE NATIONALE DES AUTOROUTES

85,000,000 US$ 12.75%

1980/95 issue

We inform the bondholders that in accordance with the terms and conditions of the bonds, Caisse Nationale des Autoroutes has elected to redeem all its outstanding bonds on May 1st, 1987 at 102%.

Interest on the said bonds will cease to accrue on May 1st, 1987.

The notes will be reimbursed, coupons No. 8 due May 1st, 1988 attached, according to the terms and conditions of the bonds.

Luxembourg, March 30th, 1987.

CAISSE D'EPARGNE DE L'ETAT
1, Place de Metz
LUXEMBOURG
as Fiscal Agent

BMB

EXTRACTS FROM AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1986

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1986
(Expressed in thousands of US dollars)

	1986	1985
Assets		
Cash and due from banks	1,587	931
Deposits at interest with banks	86,968	169,790
Trading investments	83,784	2,207
Long term investments	63,328	34,725
Investments in and amounts due from associated companies	32,453	1,520
Loans and advances	214,267	327,261
Fixed assets	15,134	15,644
Other assets	6,272	5,929
TOTAL ASSETS	503,793	558,007
Liabilities		
Bank deposits	254,067	328,921
Customer deposits	83,134	66,016
Other liabilities	5,584	5,514
TOTAL LIABILITIES	342,785	400,451
Shareholders' equity:		
Share capital	139,944	139,944
Legal reserve	2,860	2,505
General reserve	2,043	1,701
Retained earnings	16,161	13,406
TOTAL SHAREHOLDERS' EQUITY	161,008	157,556
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	503,793	558,007

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED 31 DECEMBER 1986
(Expressed in thousands of US dollars)

	1986	1985
Interest income	35,954	37,164
Interest expense	(24,187)	(24,955)
Net interest income	11,767	12,209
Other income	7,931	3,192
Total net income	19,698	15,401
General expenses	(8,459)	(7,076)
Net operating income before provisions	11,239	(8,325)
Loan loss provision	(7,200)	(8,000)
Provision for diminution in value of investment in associated company	(1,500)	—
	2,539	325
Share of profit/(loss) of associated companies	70	(67)
Net income before appropriations	2,609	258
Transfer to Legal reserve	(355)	(30)
Transfer to General reserve	(342)	(30)
Net income after appropriations	1,912	198
Exchange revaluation of investment in associated company	843	—
Retained earnings brought forward	13,406	13,208
Retained earnings carried forward	16,161	13,406

ABDUL RAHMAN SALEM AL-ATEEQI
CHAIRMAN

K.J.A. KATCHADURIAN
GENERAL MANAGER & CHIEF EXECUTIVE

Bahrain Middle East Bank (E.C.)
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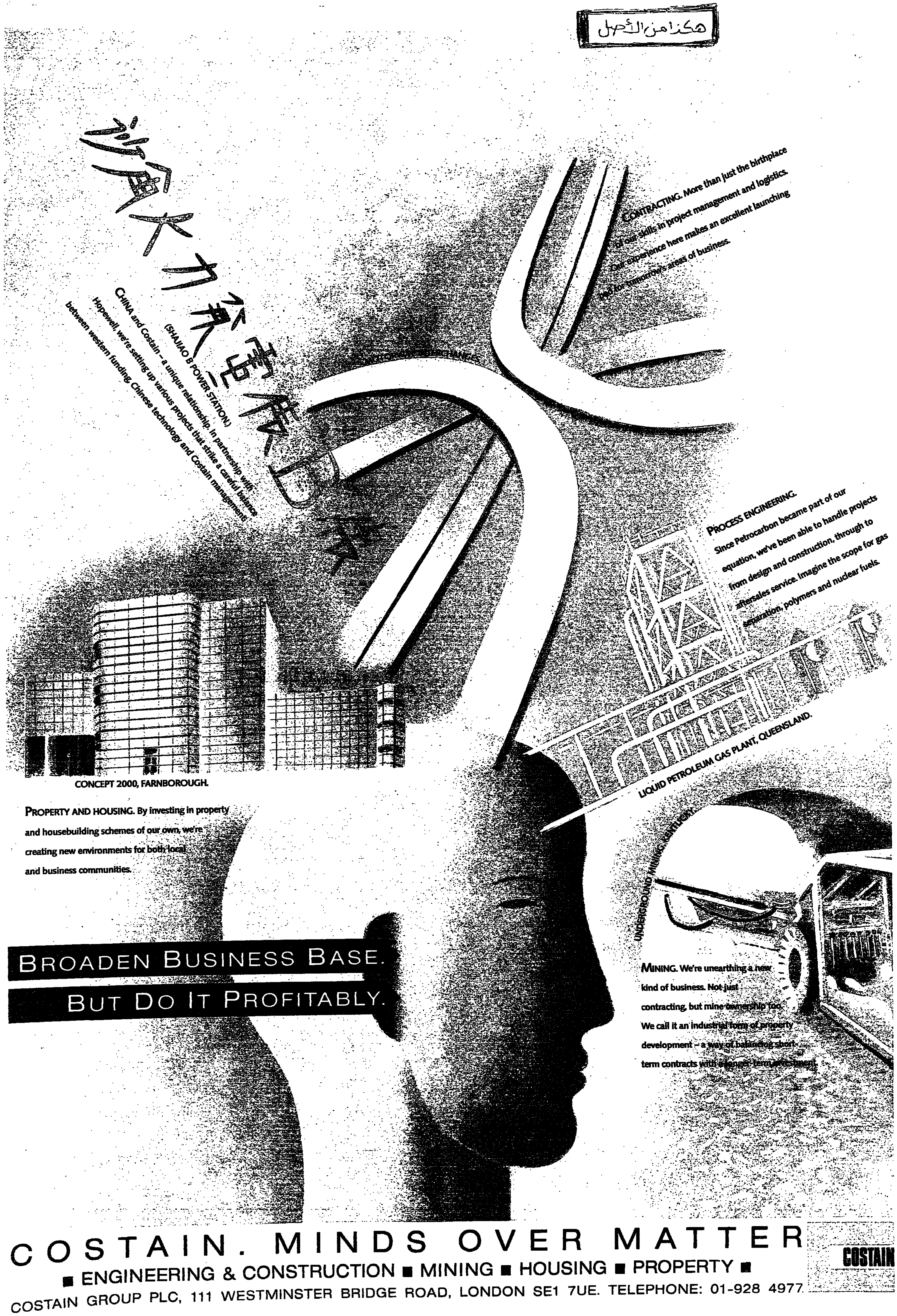
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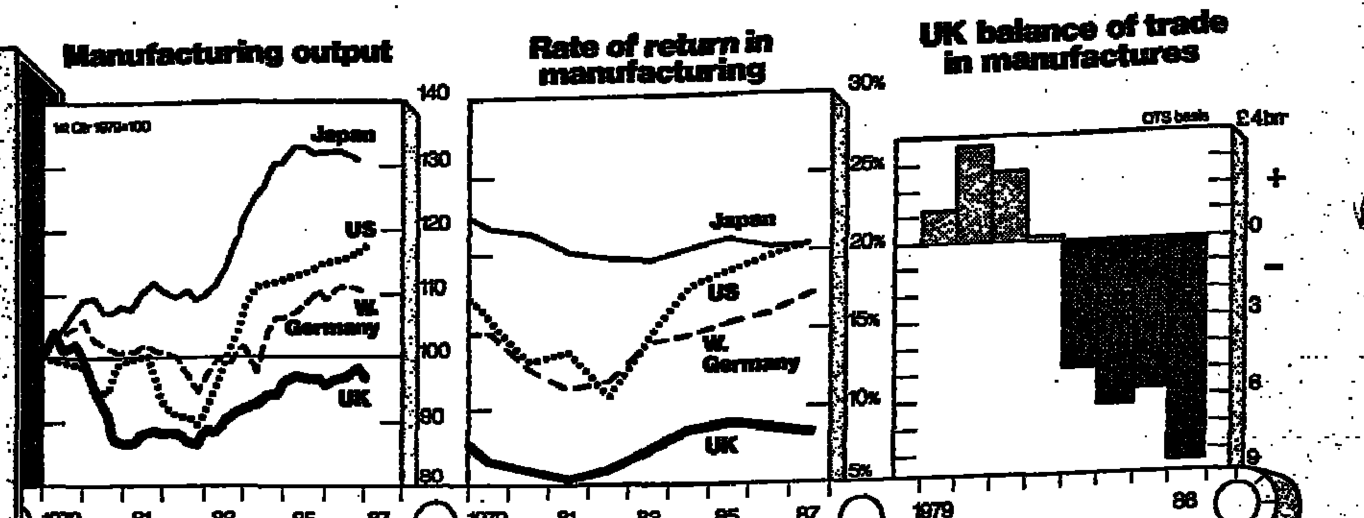
COSTAIN

Michael Prowse on manufacturing

A decline which may have gone too far



AS A manufacturing nation, observed the Midland Bank last year, Britain is on a par with Brazil, having been overtaken by Italy in the late 1970s. The remark, buried in a thoughtful analysis of the industrial outlook, neatly encapsulates two anxieties about Britain's manufacturing base: that it is too small and that it is too low-tech for what used to be one of the world's leading industrial powers.

Such anxieties are unlikely to be assuaged by ministerial hype in the run up to the general election. Fuller order books, higher productivity and better export prospects are not things to be dismissed lightly. But they do not yet amount to a revival on the scale demanded by the Government's critics who wonder what kind of economic renaissance Thatcherism can have wrought when manufacturing output is still lower than the level inherited from the Labour Party in 1979.

The UK contraction contrasts unfavourably with expansion overseas. During the Thatcher years, Japanese, US and West German manufacturing production has risen by 31 per cent, 17 per cent and 11 per cent. World trading conditions have been difficult for all countries for much of the period, but the figures show that industrialists overseas have on the whole coped better than their British counterparts.

Why, when the British economy is entering its seventh year of steady growth, has manufacturing output taken so long to get within shouting distance of its former peak? The short answer is that the sector experienced a recession in 1980/81 that has few precedents in modern times. Output fell by more than 15 per cent in two years and nearly 1½m jobs were shed.

At the time, the contraction of manufacturing was seen in part as being a natural concomitant of the huge increase in the volume and value of North Sea oil production. The rather crude idea was that space somehow had to be created in the balance of payments for this sudden new source of revenue, and that the obvious mechanism was a rise in the exchange rate which would retard the production of non-oil tradeable goods and make the service sector of the economy relatively more profitable.

The argument was always wrong—as the Governor of the Bank of England pointed out as early as 1980. In principle, there was no reason why oil production should not have been a net addition to GNP. It did not need to crowd out any other economic activity. Other countries which have experienced proportionately more disruption from rapidly rising energy output—Norway and the Netherlands for example—have managed to avoid a large absolute contraction of manufacturing output.

Manufacturers' peculiar misfortune was that oil prices and North Sea production soared precisely when a newly-elected Conservative Administration was determined to gain control of rapidly rising inflation. Because of high inflation, the Government was reluctant to loosen monetary policy and lower interest rates or do anything much to protect manufacturing industry from the devastating effects of a grossly over-valued exchange rate.

The extent of the over-valuation is easily forgotten. It bears comparison with the over-valuation of the US dollar between 1983 and 1985. The scale of the contraction of manufacturing output in 1980-81 is perhaps not so surprising given that the pound peaked at more than DM 5.00 and averaged DM 4.40 over the two years. Today the pound is worth only DM 2.90.

The erosion of Britain's manufacturing base in the early Thatcher years was thus at least in part the consequence of excessive reliance on exchange rate appreciation as a means of combatting inflation. But it also has to be seen in a longer historical context.

Mrs Thatcher, after all, inherited a lower level of manufacturing output in 1979 than Mr Harold Wilson had inherited from Mr Edward Heath in 1974. Import penetration had been rising for decades: between 1965 and 1979, the volume of imports roughly tripled relative to domestic production of manufactured godos. Britain had also seen a progressive collapse of its share of world trade in manufactures.

The severity of the manufacturing downturn in 1980/81 reflected an accumulation of

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problems over many years. It is widely accepted that over-manning was rife and that the quality of management was poor. The sector was in no position to weather either a world recession or an overvalued exchange rate. The interesting question is whether the sector's performance has since improved significantly.

The Thatcher regime's claim that it has rests mainly on improved profitability and productivity figures. The output recovery from the 1981 nadir, after all, was not startling by international standards.

However, the productivity turnaround is more impressive. Output per head in British manufacturing grew at an average annual rate of 3.5 per cent between 1979 and 1986—a huge improvement on the trend increase of 0.8 per cent a year between 1973 and 1979. Plant closures, less obstructive unions and better management have thus almost restored the productivity growth enjoyed in the "Golden Age" before the first Opec oil shock: output per head in manufacturing rose at an annual rate of 3.8 per cent between 1964 and 1973.

Sceptics attributed much of the rise in output per head in the early recession years to the so-called "batting average" effect. The bankruptcy of the least efficient parts of industry raised the overall productivity figures just as the dropping of the scores of a cricket team's tailend batsmen raises its overall batting average.

The force of this criticism has recently been substantially reduced. Higher productivity growth has survived manufacturing industry's transition from contraction to expansion and thus must reflect improvements in management and working practices. And while it is true that most industrial countries have enjoyed a rise in productivity growth in the 1980s, the improvement relative to the 1970s has been especially marked in the UK.

Higher productivity has translated into substantially higher profits. The Bank of England calculates that pre-tax real rates of return in British industry (excluding the North Sea) have risen from a trough of 3 per cent in 1981 to about 9 per cent. Profitability in much of manufacturing is thus close to the levels enjoyed in the late 1960s.

Two caveats, however, are necessary. First, some of the improvement is no reflection of manufacturers' own efforts. Companies have enjoyed big windfall gains in the 1980s as a result of extraordinarily depressed commodity prices which have greatly reduced the cost of raw materials.

Second, comparative figures compiled by the Organisation for Economic Co-operation and Development suggest that real rates of return in British manufacturing are still low by international standards. Returns of under 10 per cent in the UK compare with figures of 20 per cent in Japan and the US, around 15 per cent in West Germany and about 13 per cent in France.

Those still bearish about Britain's industrial future worry particularly about the composition of the manufacturing base. The Midland Bank study suggests that the higher the "research intensity" required in a sector, the faster British companies are losing ground.

In the so-called high research intensity sector (which includes data processing, electronics and instrument engineering), the ratio of imports to home demand rose from 29 per cent in 1975 to 54 per cent in 1985. In medium research intensity industries (such as rubber products and mechanical engineering) import penetration rose from 19 per cent to 28 per cent. Finally, in low research intensity sectors (such as food and textiles) import penetration rose from 21 per cent to 26 per cent over the period.

The tendency for the technological content of manufactured imports to rise relative to that of exports has led to jibes about Britain's "no-tech" future. Earlier in this decade it also led the National Economic Development Office to speculate in internal papers as to whether the UK might be heading for an industrial status mid-way between that of developed and developing economies.

Since high technology products also tend to be high value-added products, the shifting technological content of imports and exports may have accelerated the long run deterioration of Britain's balance of trade in manufactures.

The deterioration has been rapid during the Thatcher years: a surplus of £3.6bn in 1980 turned into a deficit of £4.8bn by 1983 and a shortfall of £8.5bn last year.

The emergence of a sizeable deficit on manufacturing trade in the country which led the Industrial Revolution has sparked a public controversy about "de-industrialisation" and its effects on the balance of payments.

The argument is that given import and export trends in manufacturing, the British economy will not be able to grow at the 2½ to 3 per cent required to stabilise unemployment without running into serious balance of payments difficulties. Estimates of the likely manufacturing trade deficit by the mid-1990s vary considerably: economists at Cambridge University last year suggested it might be as much as £23bn in 1985 prices. Whatever the figure, the worry is that the hole will be too large to be plugged by income from overseas assets and invisible earnings.

One way to maintain growth and keep the current account in check might to be accept a progressive devaluation of the exchange rate. But this would eventually put the Government's anti-inflation strategy under intolerable strain.

The recent revival of confidence in manufacturing—as reported in surveys by the Confederation of British Industry—has only slightly modified this rather gloomy outlook. There is some evidence that British companies are beginning to raise their share of world export markets from the trough reached in 1981 (this, at least, is what the volume as opposed to value figures suggest). On the other hand, there is no sign of a slowdown in the penetration of imports.

If Britain is to maintain both a reasonably firm exchange rate and a manageable current account deficit in the medium term, it may have to settle for slower growth than that enjoyed in most competitor countries. This conclusion is not vitiated by the UK's recent spurt of growth which has been achieved on the back of two unsustainable trends — the large devaluation of the pound and a sizeable deterioration of the current account.

Does the shift in the structure of output from manufacturing to services matter in some broader sense? The Government's critics are certainly wrong to argue that the production of tangible objects is somehow superior to the provision of services. Indeed, since objects are desired because of the services they can provide, it is arguable that the primary purpose of economic activity is to supply services of various kinds.

That said, there are some pragmatic reasons for wondering whether the relative decline of manufacturing has gone too far in the UK. As industrialists have pointed out, the demand for many business and financial services is closely linked to the health of the goods-producing sector. And, as discussed above, the compositional change is likely to put strain on the balance of payments if only because a much smaller proportion of services than manufactured goods is tradeable.

In the US, the debate about living standards and "competitiveness" has also prompted economists to examine value-added and wages in different sectors. It seems that in different countries and in different historical periods, manufacturing sectors have consistently been able to remunerate workers of a similar quality better than service industries.

The moral seems to be that if the US wants to raise living standards and to provide more better paid jobs, it will have to revive its manufacturing industry. Services provide a lot of jobs but often not particularly attractive ones. Britain may have to learn the same lesson.

Certainly, the notion that a shift towards services is a sign of a particularly advanced "post-industrial" economy has gone out of fashion. The share of manufacturing in GNP may have fallen to around 20 per cent in the US and UK. But in two of the world's most successful economies—Japan and West Germany—it is still around 30 per cent: the sort of ratio the Anglo-Saxon economies enjoyed in 1960. The relative failure of manufacturing in the Thatcher years may yet have bleak implications for future living standards.

Tomorrow: Joe Rogaly on divided Britain.

Christopher Dunkley says the nation cannot live by economic self-improvement alone

Come back Mary Wilson, all is forgiven

THOSE WHO keep a close eye on the leader column will already know that, according to the Financial Times's own reckoning, Mrs Thatcher's Britain turned the corner some time ago: unemployment figures are falling, there has been upward pressure on the pound, interest rates are down, the inflation rate has remained low, state industries no longer need bailing out, industrial disputes are few, there is confidence in sterling and in the equities market. It seems that Thatchepism is, at last, beginning to work.

Yet it is, perhaps, some indication of the change that has been wrought by "The Thatcher Years" that the economic indicators have come to be seen as the be-all and end-all of our national life. What shall it profit a nation if it gain every economic indicator but lose its soul? It would surely be desperately sad if, in the obsessive effort to put the economy and industry to rights, we lost sight of the fact that industries and economics are not ends in themselves but means to an end. That end is the provision of a civilised life for as many citizens as possible, and some would argue that, measured in these terms, the Thatcher years have resulted not in advance but retreat.

The evidence is there, from the puddles on the undrained concrete "walkways" of our filthy city centres (has the art of pavement drainage actually been lost, as the art of harp-making was nearly lost a few years ago, for lack of practice?) to the disappearance of university chairs and entire university departments because of budget cuts and, so far as one can tell, sheer lack of Government interest.

It would seem unfair to blame the British people as a whole for this slide towards the philistine; it looks more like a fault of central government than a national malaise. The Britain of Harold Wilson and Edward Heath may not have been a cultural paradise, but throughout those years—in fact throughout living memory — British government has given a higher priority to the arts and humanities and, more surprisingly, to science, than they have received during the Thatcher years.

Edward Heath may have been ridiculed by some for his ambitions as a conductor and there were those who considered Mary Wilson's poetry a joke, but at least in those days 10 Downing Street had aspirations, however slight, towards artistic activities.

There was a time even within the Thatcher era when those attending book launches, theatre first nights, gallery openings and the like, could expect to see the Government represented. You would often bump into Norman St John-Stevas or Lord Gowrie, or even both. Indeed you still do today, but the telling point is that they are no longer in the Cabinet. You rarely if ever see current Cabinet Ministers at such affairs now. At a technology bash, yes: when I attended the launch of Superchannel at Limehouse studios in the London Docks not so long ago I found myself chatting with the Prime Minister herself. She and her husband did of course make one much reported visit to Covent Garden to see Mr Domingo, but you could attend a whole year's supply of arts parties of the same size as the Superchannel affair without ever finding Mrs Thatcher, Mr Thatcher, or a single current Cabinet Minister present.

Does it matter? Very much, surely. Even measured by the Government's own commercial criterion, the arts represent one of those rare areas in which Britain can boast an extraordinary success story.

In the fine arts the world's top auction houses are British. In theatre there is not another centre in the world to compare to London, not only in terms of variety and success on the home front, but in export terms. How many French musicals on Broadway can you name to compare with Evita, Cats, and Starlight Express? Even the one with a French title and a French author — Les Miserables — is solidly British.

Book publishing, whether of fiction or text books, is another success story with an impressive export record. British orchestral music is admired and envied around the world, and British session musicians — orchestral and pop — are internationally regarded as the best; talk to American record producers and they say with tautological awe: "These British musicians, they can all sight read first time!"

Foreign companies come to Britain to use British musicians, just as foreign film makers flock to our facility houses to utilise the talents of our film technicians. Europeans come here for post-production work on commercials, Americans come for special effects (in which Britain leads the world) whether for *Superman* or the latest deep-space saga.

The biggest name in film animation may be Walt Disney and the pioneers may have been mostly central European, but if you talk to those in the international animation community today you discover that Britain is now considered the place to be, whether because of major undertakings such as *When The Wind Blows* or because the cutting edge in new style and technique is now in London's Soho, tucked away in nooks and crannies among a burgeoning ant-heap of young independents.

Even in television programmes, a business where we tend to be all too conscious of imports, the British export record is pretty impressive. Though the sheer number of programmes going abroad may not be as high as the number coming in (from the US, almost entirely) the annual value of exports has frequently exceeded that of imports.

So even if you look at the arts world solely in Thatcherite terms of market economics, you find it compares outstandingly well with virtually any other major British enterprise. Indeed, while Britain's international influence in military and industrial terms has declined rapidly since the Second World War, her stock in the arts has risen and risen.

Mrs Thatcher and her colleagues can, in fact, claim credit for this, arguing that, far from being a bad thing, their decesion to stay away from the arts world is a shining example of their general policy of reducing interference from the state and leaving the enterprising to prosper. Certainly it has frequently been said that the freelance film technician or the programme producer who gets out of the BBC to go into independent production is the very model of a modern Thatcher marketeer.

But a hands-off policy from the Government in economic terms is one thing; a failure to appreciate and support the arts for their own sake is another. Most members of the Royal family seem more interested in horses and guns than in ballet or painting, yet the arts receive immeasurably more moral support from the Royal family than from the Government.

When the wind of change blows

Though Princess Diana's personal preference may be for Duran Duran, she is quite capable of looking genuinely interested throughout an entire performance of Carmen. Could you say as much for Edwina Currie? The royals frequently attend orchestral concerts, film previews, ballet and choral performances. The same cannot be said for members of the Cabinet.

It is significant to discover that the great majority of Cabinet members including Norman Fowler, Geoffrey Howe, Nigel Lawson, Norman Tebbitt and even former Arts Minister Paul Channon leave the "Recreations" space on their "Who's Who" forms blank. Kenneth Baker emerges as a rare intellectual heavyweight with his recreation of "collecting books." The Prime Minister lists her recreations as music and reading, both, presumably, in a domestic context. Not a single member of the Cabinet that I have managed to track down even mentions theatre, ballet, jazz, cinema, opera, poetry, sculpture, modern dance or any other arts subject as a recreation.

The value of funds going from the public purse into the arts and sciences may have remained pretty much the same during the Thatcher years. But the ethos within which these vital parts of our public life exist has changed beyond recognition.

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Time to put a stop to displacement activity

JOHN PLENDER

ANY recent visitor to Washington will not have been surprised at the Reagan *Administration's* decision to impose punitive sanctions against the Japanese for allegedly unfair trading practices. The writing has been on the wall for some time. The worrying feature is that we are witnessing just one more example of misdirected policy. Indeed, the psychologists have a rather nice phrase for it. They call it displacement activity: doing something else when you cannot face the real problem.

The US budget deficit is as much a case in point as the trade gap. Any attempt to tackle the American trade deficit must be accompanied by an attack of comparable vigour on the budget deficit, because it has been substantially financed by private foreign capital—most notably from the much maligned Japanese. The foreigners cannot go on financing the deficit unless the US runs a trade deficit to provide them with the requisite dollars.

Since James Baker took over as Treasury Secretary the Administration has pursued the sensible, if painless, policies of talking down the dollar and asking other developed countries to expand their economies. But they alone will not suffice; in fact there is a palpable risk that if the twin deficits are not brought down in tandem, foreign capital inflows will dry up, US interest rates will soar and private investment will be crowded out. Instead of supply-side economics, which seems to mean that foreigners supply most of the goods and all the money until the trade barriers come down, we would have orthodox finance, which unquestionably means less goods for the natives and horribly dear money.

Yet President Reagan resolutely opposes any increase in taxes to address the budget deficit, while politicians on Capitol Hill are reluctant to contemplate the necessary spending cuts. Instead of a policy we have the arbitrary *spending cuts put forward by* the Gramm-Rudman-Hollings amendment. There is no hope that these will be met this year. As Fred Bergsten of Washington's Institute for International Economics neatly puts it, Gramm-Rudman embodies "process as a substitute for action," which is *another way of saying* displacement activity.

Then there are the successive currency agreements forged by Mr Baker. The Plaza accord of September 1985 undoubtedly made sense: everyone, including the markets, agreed that dollar devaluation was essential. Unfortunately nobody was agreed on how much. Mr Baker kept on talking the dollar down while the Japanese and German central banks tried to prop it up.

In the absence of wider agreement on underlying economic policies, a currency agreement has only a poor life expectation. Last year's Baker-Miyazawa accord foundered shortly after birth. And now the markets are busily testing the latest attempt engineered by the Group of Six in Paris. They automatically assume that if he expresses concern about protection, he wants the dollar to fall against the yen even if he says nothing of the kind in public.

So what hope is there of some wider agreement on fundamentals, to ensure that national economic decisions are internationally compatible in an increasingly interdependent world? In the run up to the Venice summit we will be hearing more about so-called objective indicators, whereby the summit countries are supposed to produce forecasts for the main economic variables which the International Monetary Fund is then meant to check for international compatibility and, subsequently, implementation.

This threatens to become the biggest displacement activity of all, because the production of no less than 10 indicators per country ensures that there will always be one indicator or another to provide an excuse for inertia.

Finally, we have the Baker plan to encourage increased private bank lending to Latin American debtors. At $20bn the target for private flows always looked small in relation to potential needs; and any solution that simultaneously increased the burden of debt, while requiring the banks to advance loans that would immediately be quoted at a huge discount in the secondary market, inevitably had a gimcrack look about it. The shortcomings of this make-do-and-mend aproach have now come home to roost as Brazil opts for a unilateral moratorium. And Washington is full of gossip about groiwng animosity between Mr Baker and Citicorp chairman John Reed.

Mr Baker told me last week that his plan is really more of a concept, and that it is wide enough to embrace a host of variations, including such fashionable things as debt-equity swaps. These would link the bankers' returns more directly to the debtors' economies, while taking the debtors off the interest rate hook. Unfortunately the bankers are not over the moon about them: they have accepted only to a limited extent the recent swap proposal from the Philippines.

Lest this sounds unduly negative, let me add that I am a pronounced Baker fan. Unlike his predecessor, the unlamented Donald Regan, he quickly identified the need to address the trade consequences of an overvalued dollar and to maintain economic growth through co-operation while the United States and Latin America tried to cope with their respective debt burdens. His problem has been that the solutions lie so much in other people's hands.

So what we have had from the US Treasury over the past two years is, in plain English, improvisation; and it is beginning to wear a little thin. Let us hope that the dollar devaluation works fast enough to pre-empt still more pressure for protection from Congress later this year.

INTERVIEW

The 24-carat democrat

Bettino Craxi tells **John Wyles** that he is neither an extremist nor a moderate

IT IS AN awkward question to put to a Prime Minister, even one who has resigned his office and is keeping things on a care and maintenance basis until a new government is formed. But the Italian view of Bettino Craxi is one of respect, among his Socialist Party supporters even of admiration, tinged with a suspicion that the man is a mite too fond of power and possibly a little careless about how he attains it.

Is he offended, then, by the cartoonists' fondness for dressing him in boots and a black shirt and presenting him in altogether Mussolini-esque poses?

"*No, I* am not offended, I am used to it. There is no resemblance between me and the late dictator and this must be understood. I don't say this to disparage him, he was an extremist, he was not a democrat. I am not an extremist, nor am I a moderate. I am a democrat, a 24-carat democrat."

As time is limited for his first unscripted interview with a foreign newspaper since becoming Prime Minister 3½ years ago, there is no opportunity to probe his reluctance to disparage the late dictator.

It may well be the result of a more detailed knowledge of history than is commonly attri*buted to this* complicated and uncommonly closed man. Although he is Italy's first Socialist Prime Minister and has led the longest-serving post-war government, his countrymen seem to have only the vaguest impression of his personality or, indeed, of the experiences which formed him.

It is, of course, difficult to be Italian and not have a sense of history, particularly if you work out of the Palazzo Chigi, a 16th century baroque building, once the family home of a Pope, which has housed government offices since the First World War.

The corridors looking on to the central courtyard are lined with giant *tapestries and* oil paintings and in the long elegant room used for meetings of the Italian inner Cabinet there sits the Prime Minister in front of an exceedingly romantic painting of Italy's most *romantic* warrior-politician, Giuseppe Garibaldi.

Mr Craxi has never been able to *employ the* elaborate circumlocutions favoured by many Italian politicians. On the morning after Christian Democrat Mr Giulio Andreotti has resigned his commission to form a successor government because of a rift between his party and the Socialists, the prime minister is at his most blunt. "You must understand," he says, "That I cannot say anything about the political crisis before I speak to my party's congress."

With the rules thus established, he reveals his frustration and disenchantment with the system within which he condemned to operate. While proud of his record for prime ministerial longevity, he laments that the system is "predisposed" to encourage political instability.

He wants to make a start on resolving this by introducing a directly-elected head of state, who might in time come to resemble a French president. "But it is a difficult task and I cannot make any forecasts, given that it has not so far been possible to remove some of the most glaring deformities, in particular, the secret vote."

This allows a mischievous anonymity to disgruntled and dissident parliamentarians who vote against governments they are nominally supporting. Warming to his theme and drawing heavily on his second mentholated cigarette, he points out that "there *is no other* great parliament in the world which allows a secret vote on legislation."

Never slow to display his animosity to the Italian Communist Party, which in 1983 took 33 per cent of the vote of the Socialists' 11 per cent, he says the Communists remain strong defenders of the secret vote "Chirac can govern in France with a majority of three and in Italy, with a majority of 50, you can go to the Parliament without knowing whether you will come out with your skin."

But doesn't *his* preference for a directly-elected president arouse opposition because it appears *designed to be a vehicle* for his personal power? "If it was accepted by the other parties and they asked me to stand aside, I would be very happy to do so for a reform which would help Italian democracy," he says, brandishing a satisfying ace which he knows will never be played.

● PERSONAL FILE

1934	Born in Milan.
1959	Married Anna Maria Moncini
1952	Became member of Milan regional executive of Socialist Party.
1960-70	Councillor and Alderman of Milan.
1968	Elected to Parliament.
1976	Became secretary general of Socialist Party.
1983-87	Prime Minister.

Having won the leadership of a deeply dispirited party in 1976 at the politically tender age of 42, Craxi then battled for seven years to exploit his pivotal power to block the formation of any non-Communist majority. Once in the Palazzo Chigi, however, Craxi made no secret in 1983 of his initial disenchantment with the constraints on Prime Ministerial power.

Evidently not wishing to dwell longer on the subject of personal power, he seems reluctant to say whether more mature experience has changed his view.

There are few power buttons to push, he observes, unconsciously pressing one to order a glass of water, and the institutionally inhibiting factor is the total dependence on a Parliament whose procedures are responsible for the tardiness of everything the government does.

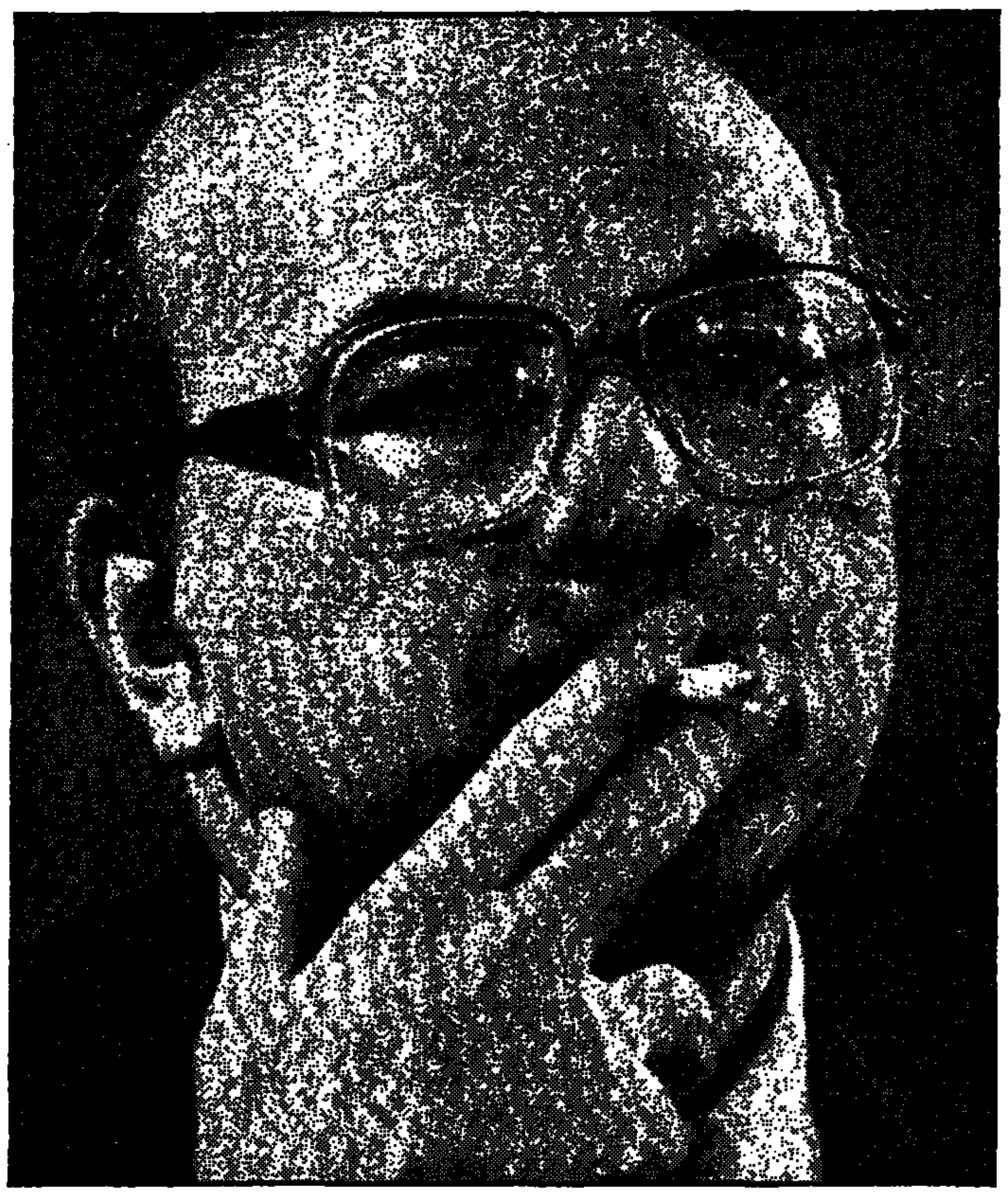
The essential question, of course, is what is power for? For the Socialist Party which he joined as a 14-year-old in 1948, it was for the creation of a Marxist state which was barely distinguishable from the Communist blueprint.

His choice of party was almost an automatic consequence of family background. His father had long been a clandestine member of the Socialist Party and played a leading role in the liberation of Milan from the Fascists. Recalling the chaotic period of anti-Fascist strugle in Milan reveals an unexpectedly sentimental Craxi.

The eyes water behind those large, owl-like spectacles as he remembers the despatch of the first car from his father's offices, bearing the red flag as a signal to the citizens of Milan to rise up against the Fascists. "Boyhood memories are much sharper than those of recent events," he says, a trifle huskily.

The young Marxist devoured the first Italian edition of Lenin's works freshly delivered from the Moscow publisher. But dampening disillusion arrived in his early twenties with a trip to Prague in August-September *1956*. "With horrified and astonished eyes, I saw the reality of a police state and then, a few weeks afterwards, came the Polish uprising and Hungary."

Thereafter, his intellectual energies and political savvy were devoted to encouraging the Socialist Party to distance itself from the Communists. His election, 20 years after Hungary, set the seal on the process



Having shed a lot of its old dogma, "the Italian Socialist Party is the party which has struggled hardest to understand the relationship between the Socialist movement and post-industrial society."

It is a party which remains, nonetheless, dwarfed by the Communists who, in the judgment of many, have abandoned Marxist principles in favour of many of the approaches that Mr Craxi favours. Why does he not collaborate with them to create a genuine left-wing alternative to governments domin*ated by Christian Democrats?*

Clearly the idea fascinates intellectuals and journalists more than him. The Communist Party needs to change itself, he says, curtly.

After establishing himself as the dominant figure in Italian politics, Mr Craxi has not been and is not inhibited by his party's modest share of the vote. "History is often made by minorities," he says, with an echo of his triumphant observation that "you can do a lot with 10 per cent," made when he captured the Socialist leadership as head of a faction with just that support in the party.

He brought the same reservoir of self-confidence to the premiership, despite having no previous experience of government.

He thinks other countries are abandoning their stereotypical views of Italy as all sun and spaghetti. "We now export less spaghetti and more robotics," he says, with evident pride.

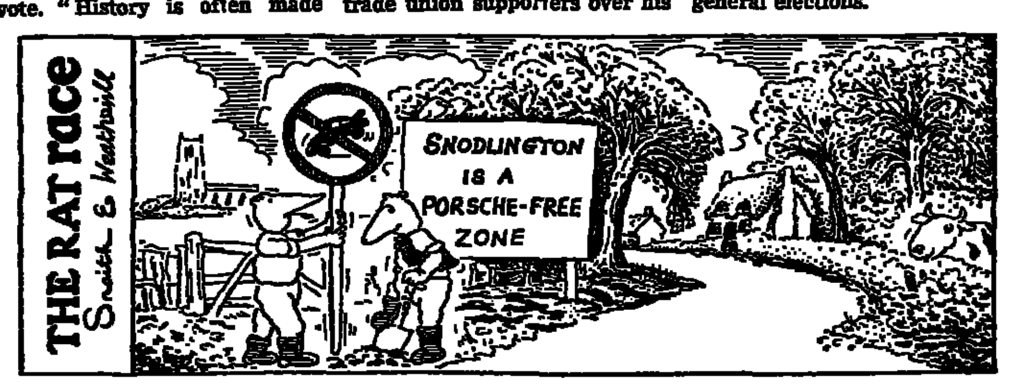
What has his personal contribution been? The nautical metaphor comes to hand of Italy as a large ship and himself as the admiral, "but certainly if I had not had good officers and seamen, I would not have got anywhere.'

The most difficult moment, he says, was the confrontation with the *Communist Party and its* trade union supporters over his determination to cut the Scala Mobile system of wage indexation.

The subsequent referendum, in which Iatlians voted for the Craxi position by rejecting what would have been modest pay rises, was a delicious moment of triumph.

"I didn't know how things would go. I had no doubt about what would happen if we lost. I said just before the vote that one minute after a negative result, I would resign. There were those who said the referendum would change nothing—this is not so, it changed the face of Italian politics."

And for the future? "I can't read a crystal ball. We have to close this Parliament and see what the country thinks." Unconscious, quite probably, but a hint that Craxi does not want a Christian Democratic-led government to emerge from this crisis, but rather a chance to test his record and authority in early general elections.



Recognising a basic right

JUSTINIAN

TO LISTEN to some of the public pronouncements (even from otherwise sensible people) on the case of the *17-year-old* severely mentally handicapped girl, for whom sterilisation has been prescribed by a local authority on expert medical advice and sanctioned by the Court of Appeal, is to be regaled by something out of Samuel Butlers' "Erehwon."

There is a real danger that the rhetoric and emotive language could obscure the socio-legal problems. If only for that reason, the grant of leave to the Official Solicitor to appeal to the House of Lords is welcome. The full hearing takes place on Thursday and a prompt judgment is expected.

The Court of Appeal has concluded that since the evidence *has demonstrated unanimously* that all forms of contraception would be either unsuitable, inappropriate, dangerous or not completely effective, sterilisation was the only answer in the best interest of the girl. Without constitutionally guaranteed civil rights, English judges are free to arrive at solutions for highly sensitive social situations without invoking high-sounding principles. But this is a case for the court's acknowledging the presence of a basic human right.

Procreation is a civil right fundamental to the existence and survival of the human race. The power to sterilise generally in the hands of evil or even misguided people, can cause racial groups, which are inimical to the dominant group in society to wither and disappear. We need to look no further than to the doctors at Auschwitz who eradiated the ovaries of Greek Jewesses and then performed ovariotomy as part of the experiment to *achieve the Final Solution*. But here the concern is solely with a particular individual with no other purpose in mind than her immediate and future welfare.

The individual who is sterilised against his will or in the absence of informed consent is nevertheless similarly deprived of a basic liberty. Such a position demands the strictest scrutiny of any law which would permit the infringement of the civil right. But the right is not absolute. In 1927 the United States Supreme Court sustained a law permitting sterilisation of an imbecile, a person with definite and observable characteristics which had persisted through three generations and afforded grounds for the belief that it was transmissible and would continue to manifest itself in generations to come.* That decision confirmed the power to sterilise for biological reasons.

Mrs Justice Heilborn, in a 1976 judgment referred to the right of every woman to reproduce. But the reproductive right is not to be casually assumed as a right for its own sake. Parenthood carries with it great responsibilities. Procreation is one thing; motherhood another.

Some mentally handicapped people may, under the most favourable extended family circumstances care for themselves. To care also for a child through babyhood, infancy and childhood, however, will almost always prove an overwhelming burden. Where then do the *best interests of a severely* mentally handicapped girl lie? The decision points inexorably to authorising an admittedly extreme act but one which will have the beneficial effect of permitting her to live in the community

But the case incidentally throws up a disturbing inadequacy in the law. The speed with which the case has been rushed through the courts has been to provide the legal stamp of approval before the girl's 18th birthday in May. After she attains her majority, sterilisation would not be possible without her consent. And it is difficult to envisage that her physical submission to the operation could ever be regarded as consensual.

The Mental Health Act 1983, like its predecessor the 1959 Act (which ushered in the modern approach to mental disorders) authorises treatment only for a mental condition of the patient. It is unconcerned with physical health. The Court *of Protection, moreover, deals* solely with affairs of property. There is no provision in the law for guardianship of mentally handicapped adults. Wardship stops at 18. Thus if a patient is unable to give an effective consent, there is in truth nobody who could give it on the patient's behalf.

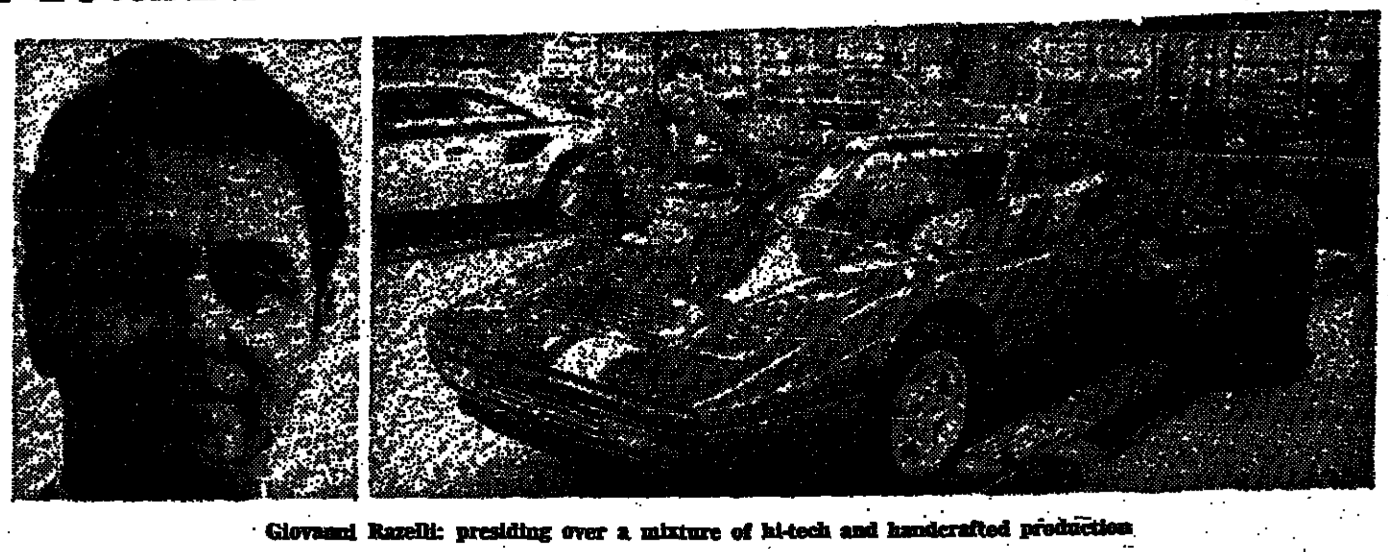
In practice if the treatment is straightforward—for example the removal of a person's tonsils or appendix—and the close relative caring for the mentally handicapped person consents, medical treatment will be given. Where the treatment is not therapeutic as with sterilisation, the operation will ordinarily be withheld. There are other difficulties unconnected with medical treatment. A mentally handicapped adult may need to be directed where he or she is to live, with whom and how not to be exploited socially. Divorced or separated parents of a mentally handicapped adult may continue their personal quarrel through their offspring.

The case before the House of Lords therefore provides a unique opportunity for some positive judicial promptings for Governmental and Parliamentary action to protect mentally handicapped adults.

* *Buck v Bell 274 US 200 (1927)*

John Griffiths on how the maker of the world's fastest cars is yielding a sleek performance

Ferrari learns to steer a strategic course



Giovanni Razelli: presiding over a mixture of hi-tech and handcrafted production

THE IMAGE persists that Ferrari, the most charismatic of all Italian "supercar" makers, is still run by a proud and autocratic "superman"—the 89-year-old Enzo Ferrari. However, that image is becoming out of date.

Mr Ferrari's chairmanship has become *strictly honorary*, although he is still *Il Commendatore* of racing. And Ferrari is no longer competing commercially in the conventional sense of living off its financial performance, sales and, indirectly, race successes.

"We're all an investment for Fiat now," observes Mr Giovanni Razelli, a former Fiat Auto executive who has been *general manager of* Ferrari since December 1985. "We're not an accounting business; we're *strategic*."

Last year all the net profit of *L14bn ($11m) was reinvested*—as it was the previous year, and as it will be for the foreseeable future.

There is a commitment to *reinvest at least 15 per cent of* turnover—which stood at L320bn ($230m) last year—until 1990 at least, and probably well beyond. Although Ferrari *has been* consistently in the black, shareholders have seen no dividends recently nor do they expect them now.

For Ferrari is 50 per cent owned by Fiat, Italy's largest private sector industrial group, and 50 per cent by Mr Ferrari. Just over two years ago, when Mr Ferrari relinquished the chairmanship to Mr Vittorio Ghidella, it became policy to reinvest all Ferrari's *earnings*.

Mr Ghidella's appointment at Ferrari is on top of his posts as *managing director of* Fiat Auto and chairman of Alfa-Lancia, the joint company set up on *January 1, which includes* Autobianchi.

There remains a deference to Mr Ferrari which goes beyond courtesy. Says Mr Razelli: "If you want to do something, I will talk with Mr Ghidella and if we agree on a course of action, we will *discuss* it with Mr Ferrari as well. If all agree, we go ahead.

"Ferrari does not actually need money from Fiat. But from a psychological point of view, Fiat is, if you like, our insurance. Certainly, without Fiat behind us, it would be impossible to risk our own *capital like this every year.*"

However, Fiat is a prop in *another* way. It is Europe's largest vehicles group and has the complex infrastructure needed to negotiate the legislative maze which has grown up *around the motor industry*—in exhaust emissions and other areas.

Mr Razelli admits that without Ferrari's ability to tap into these resources the company, with an output less than one-tenth of Porsche's, would be in difficulties.

Enzo Ferrari was first persuaded by *proliferating* legislation in the 1960s that the company he founded in 1947 would not be able to stand alone.

Ferrari made an *initial* approach to Ford in a courtship which was similar to that of Alfa Romeo last year. Mr Ferrari was willing to sell 90 per cent but he wanted to keep control of racing, which was unacceptable to Ford.

Subsequent marriage with Fiat gave each side beneficial "*spheres of* influence." The advantage for Fiat, says Mr Razelli, is mainly Ferrari's "halo" effect on image, and technology.

Ferrari's role is more important than Fiat's own huge R & D resources might suggest, as it explores, for example, new materials such as plastic composites.

"There are lots of problems in arriving at low costs of production for such materials. But we can run prototypes as test beds *for* them, and *not* only body parts, but exhausts and mechanical components," says *Mr Razelli.*

"We can spend L1m or L2m on an engine of our own to test something; it's nothing, no problem—but it's very dangerous to do these things in high volume immediately."

Ferrari is selective about innovation, and electronics in particular: "We are testing devices useful for the real performance of the car—we have *no* interest in Japanese-type gimmicks."

Computer-controlled "active" suspension and steering systems are being explored, *although* Mr Razelli suggests that they would offer few handling or ride benefits to Ferrari's two-seaters. Assessments are passed on automatically to Fiat.

Despite having some freedom it is clear that ultimately Fiat holds the reins at Ferrari from the terms under which the latter *has set* up its own engineering consultancy. It moved into purpose-built facilities in January, and so *far* employs 25 engineers compared with about 400 at Lotus, and several hundred more at Porsche's Weissach research centre.

Like Lotus—owned by General Motors—Ferrari is seeking nearly half its turnover from *consultancy* work. Unlike Lotus and Porsche, Ferrari Engineering may not work for other motor companies. To do so, says Mr Razelli "*would be to make* Fiat unhappy."

Car production last year was a record 3,640 cars, from the Maranello factory, 100 miles from Milan. They were snapped up, with an asking price of more than $100,000 for the Testarossa, and £38,900 for the 328GTB Quattrovalvole, the "cheapest" *eight-cylinder* model.

Testarossas found 819 buyers last year, 49 *per cent* up on 1985 and with current delivery time of 12 months. The 328 models form the backbone of sales, which stand at 2,024. The "tamer" models, the two-plus-two Mondial and four-seater 412 saloon, accounted jointly for just over 800. Thirty *per cent of* sales were to *the* US; 20 per cent to Italy; 12 per cent to West Germany; 7 per cent each to the UK, France and Switzerland, with 14 per cent spread around the *rest of* the world. Japan took 196.

Ferrari already vies with Lamborghini to produce the world's fastest roadgoing cars. The Testarossa is capable of 170 mph-plus, and Mr Razelli *says Ferrari is working on new* models with "much higher" performance. As for that performance already being legally unusable, he declares that "we *sell* Ferraris to people *who* want something that's different, not necessarily because it's fastest."

In the UK the *Ferrari* Owners' Club regularly rents racing circuits for speed-hungry owners to let off steam.

Ferrari dominates the small town of Maranello in the Po basin. It provides work for 1,700 *employees of all ages* and *skills* and has a technical school founded by Enzo Ferrari in memory of his son Dino, killed in a car crash. The school supplies 10 to 20 recruits each year. "We have no problem finding talent,' says Mr Razelli, "in Italy, they want to be engineers—not, I think, like it is in the UK . . ."

Computer controlled hi-tech rubs shoulders with the handcrafted work. Ferrari makes 75 per cent of its components in-*house*, and *stands* the concept of economy of scale on its head. It has its own foundry for cast-aluminium sculptures of engine blocks, hand-poured twice daily and *hand-labelled. If a prob*lem subsequently emerges, it is known precisely how many, and which, engines are involved.

Some human operatives remain on the engine block machining line, but they will be replaced within a year by CNC machines. The irony is palpable as craftsmen still devotedly hand-machine crankshafts. Yet they accept that five yards away, the same items are automatically produced, with greater speed and accuracy. All machining will soon be automated, including robotic checking *of body dimensions*, *leaving* only engine and final assembly to be done by hand.

An indefinite annual production ceiling of 4,000 cars has been set and last year's output was close to capacity. As long as *Fiat maintains its own financial* health Ferrari will stay aloof from the mass numbers game.

هكذا من الأصل

FINANCIAL TIMES SURVEY

West Berlin

Berliners are hopeful that warmer relations between East and West Germany will lead to the first official contacts between East and West Berlin since 1948. West Berlin's leadership would like to speed up détente which began with the four power agreement on Berlin in 1971. **Leslie Colitt**, Berlin Correspondent, reports

Political smog begins to lift

REUNIFICATION MAY or may not lie at the end of the long, dark tunnel, but on the surface the ice between the two Germanys is heaving and cracking.

Sceptics are quick to point out that the thaw is a periodical one. It is largely the product, they note, of Moscow's technique of alternately scolding and wooing West Germany. This time, however, there is a new element. For a change Berlin is the focal point of the political thaw.

Berliners on both sides of the wall welcomed a recent invitation to the East German leader, President Erich Honecker, to attend West Berlin's celebration next month of the 750th anniversary of Berlin. No East German leader had ever visited West Berlin and the mere thought of his coming through the wall caught their imagination.

Earlier, the Christian Democrat (CDU) governing mayor of West Berlin, Mr Eberhard Diepgen, was asked to take part in East Germany's official anniversary ceremony. The invitation pointedly noted it was in (East) "Berlin, capital of the German Democratic Republic."

When the governing mayor *was first invited late last year*, the self-assured Mr Diepgen quickly spread word that he would accept—after, of course, consulting the three Western allies responsible for West Berlin and the Bonn Government. To the allies however this was putting the cart before the horse.

Senior American, British and French diplomats in West Berlin claimed the agile Mr Diepgen was about to step into a "clever trap" to undermine the Western position that Berlin is still one city. They argued that *they could not accept East Berlin* as the East German capital without eroding their own position in Berlin.

Mayor Diepgen's response that only the allies could change the legal status of Berlin failed to satisfy them. Significantly, in his bid to see whether long-severed contacts could be re-established between West and East Berlin, the governing mayor had the full support of West Germany's CDU Chancellor, Mr Helmut Kohl. Mr Diepgen's vision of a new Ostpolitik launched from Berlin which would *relegate the once-*mighty Social Democrats (SPD) in West Berlin to political oblivion appealed to the Chancellor.

The *stalemate was broken by* a West German proposal reluctantly accepted by the Western allies. Mr Diepgen would invite Mr Honecker to West Berlin's own 750th ceremony on April 30. He would make his acceptance of the East Berlin invitation dependent on Mr Honecker's coming to *West Berlin*.

An invitation to the East German leader was extended early this month. Negotiators from East Germany and West Berlin began to work out the fiendishly intricate details which were all important ones for Mr Diepgen.

The governing mayor, for example, had to make sure he would not be seated among foreign heads of state in East Berlin. This would underscore East Germany's position that West Berlin is a "separate political unit." But if Mr Honecker came to West Berlin he would attend a ceremony at which Chancellor Kohl and the West German President, Mr Richard von Weizsäcker would speak.

It would be seen as a vivid demonstration of West Berlin's links to Bonn despite the prohibition on West Germany exercising authority in the three-power city.

In a bid to rebalance the equation, Mr Honecker noted the Lord Mayor of (East) Berlin, the less-known Mr Erhard Krack, had not received his invitation to the West Berlin ceremony. The oversight was intentional, however, as the West insists there is only one legally elected Berlin Government, that of West Berlin. This was also the reason Mr Diepgen did not reply to an invitation from Mr Krack to attend a meeting of mayors in East Berlin in June although several West German *mayors had accepted*.

This was but one of many possible factors which could prevent the exchange of high level visits from taking place. Another, Mr Diepgen warned, would be an incident at the wall in which East German border guards would shoot at an escapee trying to reach West Berlin. Only ten days ago a man was shot at trying to reach West Berlin, evoking protests from the Allies and the Bonn Government.

If the visits took place against all such odds, Mr Diepgen hoped they would lead to improvements for the "people in the divided city" and, perhaps, the first contacts between the boroughs of East and West Berlin since the division in 1948.

Before the decision to invite Mr Honecker, the visits to West Berlin by the leaders of its "protective powers" were seen as the highpoints of the anniversary year.

The US President, Mr Ronald Reagan, is to spend four hours in the city on June 12 which, however, is unlikely to be a test of his popularity. He will be *kept far from ordinary Berlin*ers for security reasons. President Francois Mitterrand will arrive on May 11 and Queen Elizabeth is to visit West Berlin on May 26 and 27.

By the end of the year, most of the Royal Family will have paid its respects as the Queen Mother will come in July and the Prince and Princess of Wales in November during the appearance of the Royal Ballet.

Such visits, flattering as they are to most West Berliners, cannot mask the significant change which has taken place in the relationship between West Berliners and their allied occupier-protectors. Younger West Berliners in particular find it difficult to accept that the Allies, and not the elected city government of West Berlin, exercise sovereignty in the city.

The four power Berlin agreement of 1971 and the resulting absence of East-West crises over Berlin meant a generation grew up without experiencing an outside threat to West Berlin's security. Little wonder that West Berliners increasingly complain aloud when their sleep is interrupted by night-time Allied military exercises or by gunshots from British and US army firing ranges.

Only last month, an SPD member of the House of Deputies complained that on the very day that cars were banned from the streets because of a smog alert, *the US army allowed its tanks to* "unnecessarily" idle their engines.

It is no longer only the West Berlin Greens who ask whether the three Western commandants, in full uniform, must occupy the front row at official functions and be addressed first in the mayor's speeches.

The Allies say they sympathise with the desire for change but caution that giving up original allied rights in Berlin would erode their presence in the city and ultimately the security of West Berliners. The other vital pillar for West Berlin, without which it could not survive, is the economic and political support it gets from West Germany. Some 52 per cent of West Berlin's budget this year of DM 23bn is financed by the Bonn Government, in addition to DM 8bn in subsidies as well as payment of allied non-military expenses in Berlin.

West Germany also provides some DM 2bn annually in West *Berlin-related payments to East* Germany.

A broad consensus still exists in West Germany that West Berlin must be helped because of Berlin's role as a clasp between the two Germanys. Nevertheless, many West Germans suspiciously regard West Berlin as a bottomless pit for aid and subsidies.

West Berlin may also find it more difficult in the future to gain a sympathetic hearing from West Germany industry. The generation of senior West German executives who knew Berlin as a capital and who worked (and fought) in the city as young men is retiring. Their successors will not necessarily respond to special appeals for help from West Berlin.

A notable exception is Mr Edzard Reuter, son of the famed SPD Mayor of West Berlin during the Soviet blockade, who is to become a co-chairman of the board of Daimler-Benz. Chancellor *Kohl, although hailing* from Rhineland-Palatinate, has a Berlin-born wife and is *another promoter of Berlin who* speaks emotionally of its "historic national talk."

This anniversary year will see a record number of West Germans visiting West and East Berlin.

Most visitors will drive to West Berlin across one of the four autobahn routes through East Germany. Two are in excel*lent condition—one is new*—thanks to West German payments to East Germany to improve access to West Berlin.

West Berlin is also anxious to get a high speed rail line between the city and Hannover in order to link up with the West European intercity network. Bonn once again will have to finance the lion's share of this project, leading the German Institute of Economic Research (DIW) in West Berlin to make a novel suggestion: the payments Bonn makes to East Germany for the planned rail line should be used to buy anti-pollution equipment from West Germany for the lignite-fuelled East German power stations which heavily pollute Berlin's air. The proposal was welcomed by West and East Berliners who breathe the same air—although West Berlin has smog alarms and East Berlin does not.

The old and the new by night at Breitscheidplatz

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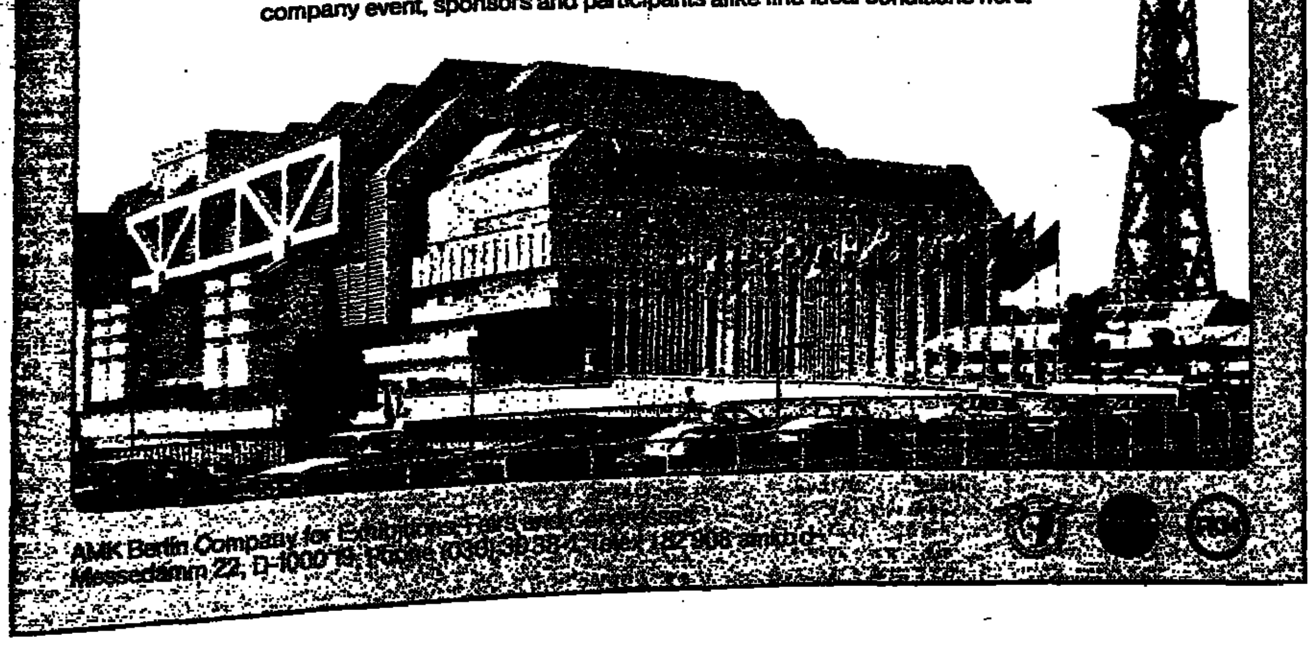


Subsidies and investment incentives bolster the island economy

The high cost of success

REMARKABLY, West Berlin's "island" economy—unlike that of surrounding East Germany—has had no energy problems or shortages in the succession of bitterly cold winters which laid low Eastern Europe.

On an area of only 480 square kilometres, 1.9 million West Berliners turn out a gross domestic product which is almost half that of Denmark. Road, rail and barge transport across East Germany flows smoothly, providing West Berlin with the materials it consumes and carrying back to the West the products it sells. The city's eight power stations deliver all its electricity, needless to say at a high cost.

While West Berlin remains Germany's largest industrial city it is economically cut off from its hinterland and has become an industrial enclave of West Germany. Before the Second World War, one-third of Berlin's output was sold in what is today East Germany—now it is only 1 per cent.

The city has had to compensate *for its distance* from the West German market by offering some of the most extensive subsidies and investment incentives in Europe.

Most of the large companies which had their pre-war head offices in Berlin moved to West Germany between 1945 and 1961 while maintaining large-scale production in the city. When the Wall was built in 1961, the industrial exodus from the city gathered momentum. Suppliers moved to West Germany to be close to their customers who did not want to be dependent on deliveries from crisis-prone West Berlin.

The Four Power Berlin Agreement of 1971 gave the city security but by 1983, 110,000 industrial jobs had been eliminated. West Berlin's GDP rose 2 per cent annually compared with 2.8 per cent in West Germany and the city's share of total West German GDP fell from 4 per cent to 3.3 per cent. Public sector employment meanwhile expanded by one-third, *reaching 200,000 persons by* 1983.

A Christian Democrat (CDG) city administration which came to power in 1985 pushed through a sweeping economic restructuring programme which began to show results. By 1984, the West Berlin economy outpaced that in West Germany while the fall in employment was halted.

Between 1984 and 1987, 32,000 industrial and other jobs were created while, for the first time in 20 years, more Germans settled in West Berlin than left the city for West Germany. A record DM 2bn was *invested* in West Berlin industry in 1985.

But just as the CDU was able to count some of the fruits of its efforts, the economic picture again began to cloud over. Falling orders from members of the organisation of Petroleum Exporting Countries for plant and equipment (still a disproportionately large item in West Berlin's industrial output) depressed the growth rate to 2 per cent last year compared with West Germany's 2.5 per cent.

Unemployment remained stubbornly high during the mini-boom, reaching 11.5 per cent last month compared with a slight drop in West Germany to 10 per cent.

Last year 77 new companies were attracted to West Berlin, *investing DM 130m and creating* 1,723 new jobs. They would not have come, though, without the investment incentives which West Berlin's economics chief, Senator Elmar Pieroth, claims are higher even than in Ireland. The CDU earlier revised the incentives which had attracted a lot of high-volume, capital-intensive producers using *mainly unskilled labour. Too* many companies added a nominal final touch to their product in Berlin in order to benefit from the reductions offered in VAT. But now, high-tech companies operating in Berlin complain of a dearth of skilled labour, a complaint not uncommon in other West German industrial centres.

Despite the influx of investments, jobs are again being lost at a faster clip than they can be created. The city's electrical engineering industry, the largest industrial sector, has been hit by falling orders. Several large companies including Siemens want to reduce employment.

While the city's efforts to lure hightech firms to Berlin has met with some success, it is only a start.

It is hoped that west Berlin's research capacity 180 establishments including the Max Planck, Fritz Haber, Hahn-Meitner, Fraunhofer and BESSY institutes employing more than *30,000 researchers* can act as a magnet for science-oriented companies, together with the incentives, *of course.*

Attempts to expand the service sector of the economy have proved difficult apart from hotels which are flourishing. West Berlin has branches of nearly all the important West German banks and insurance *companies, none have switched* their base of operations to the city.

The city-owned Berliner Bank, however, is rapidly expanding in West Germany and is being privatised in stages. In two years' time only 51 per cent of its shares will remain in city hands.

Investment incentives available

1—A VAT (turnover tax) rebate from 3 per cent to 10 per cent on shipments of goods from Berlin depending on the value added in the city. An added rebate of 4.2 per cent for the West German customer or exporter.

2—Investment financing: Approved sites can be leased at 3 per cent per annum for 50 years while 10 and 12 year credit facilities at 5 per cent per annum are available.

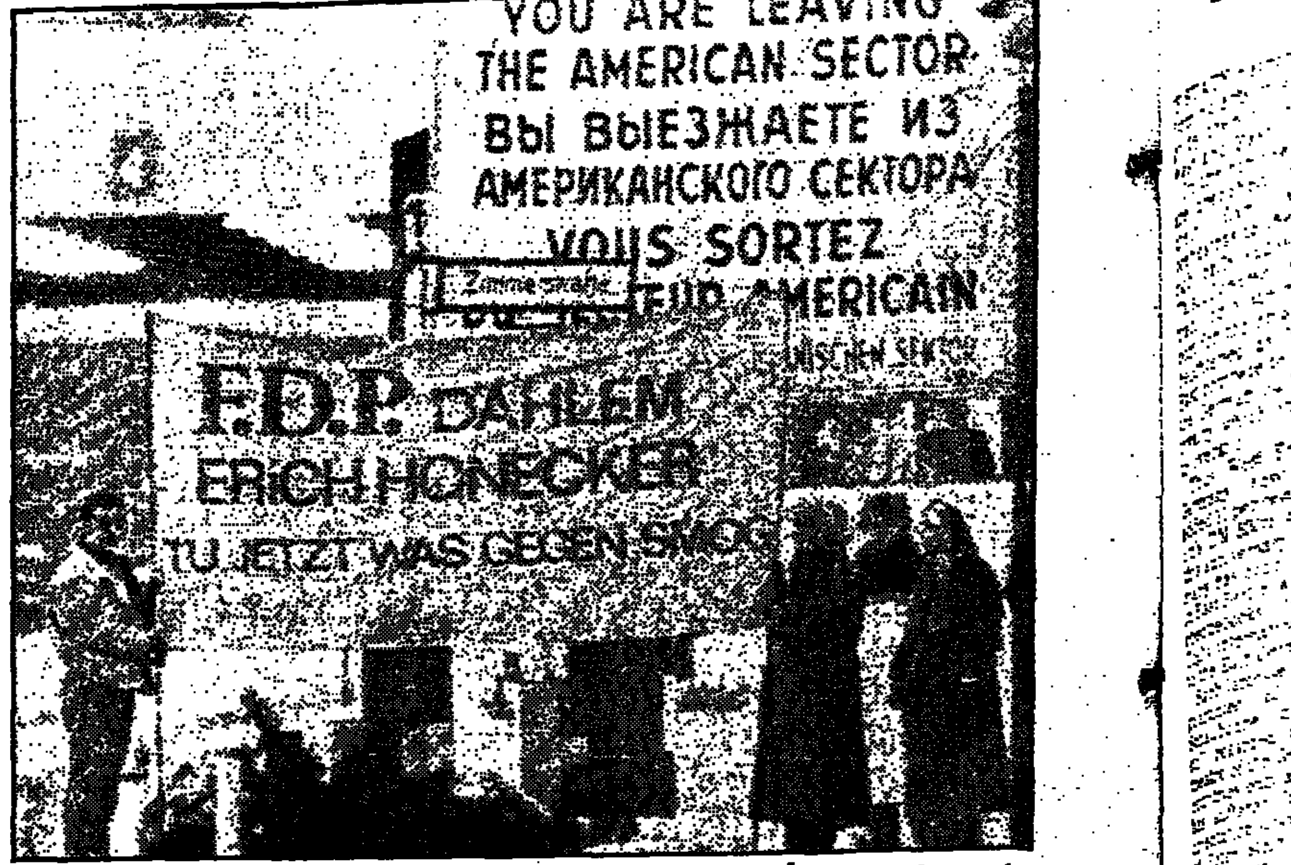
Taxfree Investment Grants: 25 per cent on new plant and equipment and data processing. 20 per cent *on new* buildings for production and 25 per cent for research and development. Up to 40 per cent on new equipment for R & D and 25 per cent for production equipment.

3—Accelerated depreciation of 75 per cent for production and R & D buildings, machinery and equipment in the year of investment or during the first five years.

4—Income tax reductions:

a) Corporate: taxes are 22.5 per cent lower in Berlin than in West Germany, holding companies have a 10 per cent tax advantage and local trade income taxes are about 50 per cent below those in West Germany.

b) Personal: taxes are 30 per cent lower than in West Germany. In addition, a tax-free bonus is paid of DM 49.50 per child each month.



Members of the West Berlin Free Democratic Party demonstrate at Checkpoint Charlie border crossing against smog from East Berlin

Mood of the city

The Wall demoted

WESTERN prime ministers, presidents and monarchs visiting West Berlin have a habit of praising West Berliners for their fortitude in the defence of freedom and democracy.

It is all well meant and goes down well with many West Berliners over 50 years of age who recall the 1948-49 airlift which broke the Soviet blockade of the city. Yet a considerable number of West Berliners regard such praise as maudlin for there is little to feel heroic about in Berlin anymore.

The main threat from their communist surroundings these days is the smog produced largely by East Germany's lignite-fuelled power stations. A more ludicrous situation than the smog alerts in West Berlin this past winter and the official alleged absence of smog in East Berlin could hardly be *imagined.*

The Wall is as distasteful to West Berliners as ever—when they get to think about it, that is, as it does not greatly affect the *lives of most inhabitants.* West Berlin drunken drivers and suicides occasionally ran into it and East German border guards sometimes emerge through doors in the Wall to warn West Berliners to stop cultivating their gardens so close to the barrier.

Otherwise, most West Berliners experience the *Wall only* when leaving or entering the city when they drive to and from West Germany. Contacts with relatives and friends in East *Berlin and East Germany* are strongest among elderly West Berliners. For the majority of younger West Berliners, however, the East has become more remote than the US which they see in TV serials almost daily.

Supporters of the West Berlin Greens are a notable exception to this lack of interest in the East among the young. But it is precisely because of their close ties with the ecology and peace movement in East Berlin that the Greens are frequently barred from entering it.

The authorities in West Berlin are hoping the *tens* of thousands of East Berliners and East Germans who were allowed to leave *in recent years and to settle in* West Berlin will strengthen the waning family ties with the East which are seen as a symbol of German unity. Their presence also offsets decline in the overaged German population of West Berlin which in the inner districts is often outnumbered by Turkish Gastarbeiter and their families.

Berlin's Turks, numbering 112,000, or 40 per cent of foreigners in the city, are on the whole a remarkably peaceful lot. This, however, may well change in the future. The second generation of Germanised Turks is showing signs of *rebellion against both parental* curbs and growing discrimination. They are not even second class citizens as few Turks, even among the younger ones, can take German citizenship.

The authorities still argue that Germany is not a country of immigrants while the Turkish Government refuses to permit its citizens abroad to hold dual citizenship. West Berlin is pressing the Bonn Government to make it easier for Gastarbeiter of long residence to obtain German citizenship but with little success.

Whether Gastarbeiter or native West Berliner, the work ethic is fast fading according to local industrialists. They complain that West Berlin *has* one of the highest rates of absenteeism in Germany due to illness, a feature it incidentally shares with East Berlin.

More than one West Berlin executive claims his fellow West Berliners are spoiled, have it too well and are shielded from the urgent problems of the city. But this self-complacency is also found among businessmen in the city who are hardly renowned for their aggressive pursuit of markets outside West Berlin.

"They run to the public sector honey pot whenever orders begin to slacken," one Berlin banker remarks.

The warm rain of subsidies on the city has undoubtedly led to the "drip feeding" mentality which West Berlin's economics chief, Senator Elmar Pieroth, is determined to change. The huge sums of public money available in the city undoubtedly are also a cause of the debilitating corruption scandals which *periodically hit* the administration.

For a city with such economic problems, West Berlin is crawling with luxury cars—including more than 100 Rolls-Royces and Bentleys—and the expensive villas to go with them. Further evidence of money quickly to be made is the armada of yachts which ply the lakes of West Berlin.

On the other hand, it is also easier for someone who embraces a counter-culture to get by in West Berlin with its neighbourhoods filled with organic food shops and bookshops specialising in Marxist literature. Alternative *life* styles which thrive in West Berlin are a powerful magnet for young West Germans who appreciate the slower pace of life in the city. Young West German males also come because they are not subject to military conscription as long as they remain in the demilitarised *city.*

Small wonder that the *only* national newspaper to come out of West Berlin is the organ of West Germany's counterculture, *Tageszeitung or Taz for short.* Its readership plummets perilously each summer when the West Berlin alternative scene *migrates* to the shores of the Mediterranean.

Two top hotels are the traditional Kempinski just off the Kurfürstendamm and the newer Steigenberger facing its own traffic-free square. Both have unobtrusive service and excellent restaurants. They are followed by the Intercontinental and Schweizerhof hotels.

Virtually every *national* cuisine is now represented in West Berlin and foreign restaurants have put German ones in a minority. But for hearty German fare there is the Berliner Stube at the Steigenberger, Hardtke in Meinekestrasse and Hecker's *Deele in Grolmanstrasse. Die* Ente (The Duck) at Yorckstrasse 60 in the borough of Kreuzberg serves an exquisite duck and many other freshly-prepared *and reasonably-priced dishes in* a cosy, informal atmosphere.

The Kurdistan restaurant in Uhlandstrasse 161 is one of the rare places serving delicately-*seasoned* Kurdish *food* in Europe. The decor is intimate and prices moderate.

Company snapshots

From pharmaceuticals to airlines

A number of leading international companies play an important role in West Berlin's economy:

Siemens: Founded in Berlin in 1847, the giant electrical engineering and electronics company has 25,000 Berliners on its payroll and is the biggest industrial employer. Berlin is still the firm's largest industrial site with 15 plants and sales of well over DM 4bn. Siemens places DM 700m in orders with Berlin industry and trade and invests some *DM 250m here annually.* A new automation technology plant costing DM 150m is to be opened in mid-year to produce circuit boards for its basic control system. A fibre optics components factory was opened earlier this year.

AEG: Also founded in Berlin and now part of Daimler-Benz, this electricals firm employs 7,500 in Berlin although employment was sharply cut back in recent years.

Schering: The only major company to have retained its headquarters in Berlin, this pharmaceuticals and chemicals group has 6,500 peple in the city out of 23,000 worldwide. More than 80 per cent of sales are outside West Germany.

Daimler-Benz: Mercedes components and engines are produced at its West Berlin factory in which DM 500m has been invested since 1978. DM 300m is planned for the next three years. DB bought DM 200m from Berlin suppliers last year. Its high-tech research driving simulator is located in West Berlin.

Nixdorf: West Germany's most successful computermaker recently opened a DM 300m plant in West Berlin employing 1,500 persons. Another DM 300m is to be invested in Berlin over the coming five years.

BMW: Its entire motorcycle output is in West Berlin where 1,800 workers turned out 32,000 units last year as well as car components. BMW will begin producing camshafts in the city after investing DM 100m in a new plant.

IBM Deutschland: 1,600 employees in Berlin with sales of DM 320m.

Gillette: 1,400 Berlin employees and sales from Berlin of DM 275m.

Philip Morris: 1,000 persons in Berlin in a highly automated plant.

Ford: Its plastics components plant employs 1,000 workers.

PanAm and British Airways: Together they *account* for almost all scheduled air traffic between West Berlin and 15 West German cities as well as international destinations. The market is lucrative and PanAm is to begin a shuttle service starting June 1 between Berlin and Hamburg which is to be extended to Frankfurt and Munich. PanAm is also expanding its charter operations from Berlin to holiday points.

Dan-Air: The UK carrier is the biggest charter carrier in Berlin with 370,000 passengers last year, up 50,000, taking 60 per cent of the market followed by PanAm with 30 per cent. Dan-Air also has scheduled routes between *Berlin, Saarbruecken* and Amsterdam and is hoping to begin scheduled service between West Berlin and Gatwick Airport this year.

Profile of Dr Guenter Spur whose advocacy of computers has made him a cult figure

High priest of technology

DR GUENTER SPUR'S vision of the computer-integrated factory *is something of a nightmare to a* growing number of West Germans.

But Dr Spur, a 58-year-old professor at West Berlin's Technical University, insists the data-operated plant will result in a "more humane" industrial atmosphere. Such views border on heresy in a society which is increasingly losing its once cast-iron faith in technology.

The professor, though, has become something of a cult figure to his followers who include German industrialists as well as his students. His gleaming new research establishment has become an attraction for industrial visitors to the city.

The DM 140m building—a bargain by West Berlin standards—houses the Centre for Production Technology which was conceived to assure that West German industry remains at the forefront of the "art" of manufacturing.

The core of the building is an *enormous, glass-enclosed circular* hall packed with the latest machinery and equipment. The giant machines are mounted on a special foundation which prevents vibrations from being transmitted between them.

Surrounding the hall are a dozen workshops and labs for research in everything from the thermal and dynamic behaviour of machine tools to the planning, simulation and control of flexible manufacturing systems. Rare is the modern manufacturing company which does not see its future here.

Leading West German companies supply the machinery and equipment to the Centre at near cost price. In return, the huge *milling machines* and robots are used for experiments which are mainly commissioned by the companies which provided the hardware. The operating budget, DM 20m last year, is provided by the prestigious Frauenhofer Society which is largely financed by German *industry and the Bonn Govern*ment.

Dr Spur's name opens the doors of executive suites in German industry because, among his contributions, he developed the software, for the control technology which enabled Mercedes-Benz to use welding robots on a large scale.

In his regular lectures at the Technical University, the professor regales his students with blow-by-blow accounts of the history of the copy milling machine or numerically controlled programming. His staccato delivery and anecdotes ensure his popularity among students whom he frequently *addresses using the familiar "Du"* form. Professor Spur regards his academic post as a fountain of youth which he would be loath to exchange even for the highest paid company directorship.

Venture capital

Rise of 'sneaker' capitalists

NO NEW Nixdorfs have yet emerged since West Berlin created the Centre for Innovation and New Companies (BIG) and the Technology and Innovation Park (TIP) three years ago.

Nurtured by the Technical University, they were to aid in the setting-up of new hi-tech companies which were in short supply in both West Berlin and West Germany.

Some 30 small hi-tech firms operate under the umbrella of BIG in a red brick pile which formerly belonged to the AEG company. Employing only a few hundred people they are still no immediate answer to Berlin's unemployment problem. Yet only a decade ago the mere idea *of young engineers and scien*tists founding their own businesses in West Berlin would have met with derisive laughter. When they first started up in business they were disparagingly called "sneaker capitalists"—from the athletic shoes some of them wore.

BIG, which was the first such centre *in Germany,* was turned over to a foundation last year, backed by companies and banks. But the criteria for choosing whether a company qualifies *to* be housed in the centre remains "first, second, third and fourth whether they are entrepreneurs" according to Mr Joerg Poeschel of BIG. "Whether they have a good product *only* ranks fifth," he adds.

BIG, however, has been criticised for making already successful small companies very successful instead of selecting struggling firms with a good product.

The firms share a switchboard, telex, telefax, secretaries, conference rooms and, *if they wish, accountng services.* After five years they must leave and make way for new firms.

Many of the young companies are engaged in software and a good number in environment protection which has become a specialty in the wake of the acute German concern about pollution. The annual BIG TECH fair, attended by a growing number of West German and foreign exhibitors, is yet another attempt to bring the world to Berlin.

Close to BIG and the large new *Nixdorf plant is* the Technology and Innovation Park TIP where applied research institutes from the Technical University and other *Berlin science establishments* work side by side with innovative small and medium-size companies.

West Berlin took the lead *among the West German states* in setting up a state-backed Innovation Fund in 1982 to promote the transfer of new technologies into local industry. Thus far, it has financed 50 projects with DM 34m and is rated a success by the German Institute of Economic Research (DIW) in Berlin which keeps an independently critical eye on developments in the city.

Similarly, the city-financed programme which has provided some 360 "innovation assistants"—business graduates and young engineers—to smaller companies in the city which could otherwise not afford expert advice is also given high marks by DIW. It speaks less *favourably about the city's* efforts to help new advanced technology companies to get established and suggests a special fund be created to aid such companies beyond the initial founding phase. Mr Kurt Kasch, member of the board of Deutsche Bank Berlin, believes, however, that using public money to finance innovative new companies largely serves to "smother" their efforts to succeed. His own bank began supporting new firms with venture capital five years ago, achieving *the greatest success among* trades and service companies in the low and middle tech fields. The survival rate in the hi-tech area is about 30 out of 150 companies, in part he notes because *they were founded by* technicians and not businessmen.

A total of 11 private venture capital companies are active in West Berlin where they have financed just over 50 projects worth DM 60m. The largely city-owned Berliner Bank, which is gradually being privatised, founded one of them together *with the Berliner Commerz*bank, Nixdorf, Standard Elektrik Lorenz and Hannover Finanz with each partner putting in DM 2m and the banks providing a DM 20m borrowing limit. The goal is to finance promising new industrial and service sector companies as well as already established Berlin firms which need investments to expand.

Mr Kasch voices the frequently heard complaint in the city that both young and old Berlin entrepreneurs rely too *heavily on West Berlin demand* and are often unaware of potential markets in West Germany not to speak of others farther afield.

*His bank has tried to compen*sate by inviting businessmen from abroad to visit Berlin and meet potential business partners.

Conventions and Fairs

A DM 186m boost

THE GERMANS have a special talent for putting on great industrial and commercial fairs which West Berlin has been *able to capitalise on. Fairs,* exhibitions and more lately conventions have become a growing part of the services sector which the city wants to expand.

This does *not mean,* though, that a convention centre the size of Berlin's International Congress Centre can be run without public financing of the annual deficit. The benefits to West Berlin—as is true elsewhere—lie in the multiplier effect. Thus, 55,000 visitors to conventions and fairs each year fill the many new hotels and patronise *the airlines, restaurants and* shops. Without the DM 65.5m they spent in the city last year, many an exclusive restaurant and boutique would have found it difficult to exist.

The mammoth International Congress Centre, built in 1979 and linked with the fairgrounds by an enclosed bridge, reported 74 per cent use of capacity last year and 165,000 participants attending 500 conventions. Handsome the ICC is not, but it has enabled West Berlin to get the International Monetary *Fund and the World Bank to* hold their joint annual meetings in the city next year with 11,000 persons attending.

Other convention coups *include the* International Chemotherapy Congress lined up for 1991 with more than 10,000 doctors and researchers. Often the ICC is used as a combined convention and exhibition venue as in the case of Compas which will be held in May dealing with integrated information and data processing, communications and telecommunications technology.

At the fairgrounds under the Eiffel Tower-like Funkturm, a *major DM 186m modernisation* programme is under way. While new fair buildings are inaugurated, old ones are being torn down without any interruption of the schedule of events.

The year began with the traditional Green Week agricultural and food fair in February which drew exhibitors and agricultural officials *from all* over *Europe* and abroad as well as 440,000 visitors from Berlin and West Germany. They function as a test market for new foods which the Danes and Dutch use so skilfully for their sales in Germany.

More than 2,000 exhibitors (three-quarters of them from abroad), 20,000 trade visitors and 58,000 Berliners and West Germans seeking advice on holiday destinations thronged the International Tourism Exchange (ITB) held earlier this *month. This* event, *the largest of* its type owes its success to the fact that West Germans are the leading per capita spenders on travel. Even the most remote *Pacific isle sends its tourism* director to the ITB in the hope of capturing a slice of those Deutsche Marks.

Another highlight is the International Audio and Video Fair held every two years in Berlin which begins at the end of August. It is billed as the main European fair for home electronics at which the industry presents the latest it has to offer.

The Overseas Import Fair, a showcase for the products of *developing countries* (and some quite developed ones), is held in late September and has shown steady progress since it was launched 25 years *ago.* Again, the attraction for exhibitors is the lucrative German market for imports which last year brought 782 exhibitors and 28,000 visitors, many from West Germany and neighbouring European countries.

An automobile show, AAA which is staged every two years, began as a purely local event but has burgeoned into a mini-*version of the Frankfurt* motor show. Last year's AAA saw the presentations of the new BMW 700 series as well as the new Jaguar and Rover Sterling models for the German market.

AMK, the city-owned company which organises exhibitions, fairs and congresses is also responsible for organising West German exhibitions abroad. Last year it mounted 19 of them, including its largest ever, put on in Cameroon. It also organised the food technology and packaging fair FoodTech in Wuhan, China, at which 70 exhibitors took part from West Germany, the Netherlands, Switzerland and Sweden. Success was such that it is to be repeated in 1988.

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Culture

Rivalry in patronage

IF STATE patronage of the performing arts is any yardstick to go by their culture in Berlin—West and East—is flourishing.

On the surface the dual cities are drenched in Kultur, from their five state-supported orchestras to the several dozen publically subsidised theatres. This, of course, is in the German tradition of strong regional support for the arts. In Berlin it is heightened as both West and East compete to be regarded as the German cultural centre, a rivalry which invariably leads to overkill.

Thus, West Berlin and West Germany have pumped an added 11 per cent into West Berlin's DM 530m cultural budget this anniversary year. East Germany has done much the same in East Berlin, while opening its chequebooks to attract top flight international performers to the East German capital.

Such largesse, however, is no guarantee of results. The Schaubühne in West Berlin, still regarded as the leading theatre of the German-speaking countries only a few years ago, has suffered from a lack of orientation since the departure of Peter Stein, its innovative first director.

Meanwhile, the flagship of West Berlin's state theatre, the Schiller Theater, is outclassed by East Berlin's foremost playhouse, the Deutsches Theater. Together with the Komische Oper (Comic Opera House) under Harry Kupfer, it is the best East Berlin has to offer.

One of the few bright spots in West Berlin's established theatre is Hans Neuenfels at the Freie Volksbühne along with the talented former East German actors and actresses now working in West Berlin.

West Berlin, though, remains a mecca for alternative theatre groups which exist on a shoestring and normally outshine the established theatre.

One of them, the Grips Theater, last year came up with what Berlin has long waited for, a home-grown musical capturing the mood of the city, Number 1 Line, written by Grips' director, Volker Ludwig.

Berlin is well endowed with festivals of music, theatre and film whose quality necessarily varies from year to year. West Berlin's annual film festival earlier this month emerged from its depths of recent years with the help of the newly-liberated Soviet film.

Here was an example of the city's traditional function as a cultural bridge between East and West which pre-war Berlin exercised until 1933. West Berlin's Academy of Arts under its president, Günter Grass, has played an important role in this process by holding public discussions with visiting Soviet writers and film makers.

West Berlin's Cultural Forum located a stone's throw from the Berlin Wall continues to expand but remains incoherent. Mies van der Rohe's monumental National Gallery and Hans Scharoun's *Philharmonic Hall* along with the amorphous State Library have stood isolated for years—both from each other and from the rest of the city.

The Applied Arts Museum, resembling one of the more oppressive maximum security prisons, recently joined them. Several plans to draw these derivative Bauhaus structures together into some form of unity have been scrapped and a new start is to be attempted.

Some of the more successful examples of modern architecture—in fact many of them are post-modern—may be seen scattered throughout the city as part of the International Building Exhibition (IBA) which deals with the inner city as a residential area.

A major strength of Berlin, again both parts, is its wealth of museums. As in so many areas there are two of *everything*: two museums of antiquities, two national galleries and two Islamic, Egyptian and Near Eastern museums.

East Berlin's Museum Island with its monumental Pergamon Altar as well as the Babylonian Processional Road and the Ishtar Gate are rivalled only by the British Museum.

On a more mundane level there *is* the delightful new Museum of Transport and Technology in West Berlin as well as the restored Hamburg Railway Station, now a museum containing a marvellous collection of steam locomotives and 19th century railway coaches.

West Berlin will get yet another museum in the form of the German Historical Museum, a gift from West Germany which is to be built near the Reichstag hard by the Berlin Wall. Germany's former parliament has itself become something of a museum. Although restored, its lack of use has condemned it to what the Germans picturesquely call a "sleeping beauty" existence.

Wintergarten project

Bank to the rescue

WEST BERLIN'S city fathers were seriously considering digging an expressway tunnel under the Kurfürstendamm in the 1960s. It would have meant razing one of the few surviving town house ensembles dating back to the building of the boulevard in the early 1870s.

That project was mercifully shelved and the Wintergarten Ensemble in the Fasanenstrasse was saved—for the moment. But the city needed a patron willing to restore two of the former residences damaged during the war and badly neglected afterwards.

At this point Deutsche Bank, West Germany's mightiest, entered the picture. It still feels a sense of noblesse oblige toward Berlin where its pre-war headquarters stood in what is now East Berlin.

Mr Bernd Schulz, a partner in the Pels-Leusden art gallery who had his eye on the run-down houses for some time, convinced Dr Friedrich W. Wiethege of Deutsche Bank's subsidiary in West Berlin that they were well worth restoring. He in turn convinced the board of directors in Frankfurt and the bank bought them for DM 3.2m in 1984 and spent another DM 10m on their restoration.

Returned to its former grandeur, the eclectic Villa Grisebach is now occupied by the gallery and used for special exhibitions. Its equally splendid neighbour, modelled on a small Parisian palais, houses the new Käthe Kollwitz museum. The third building, the actual Wintergarten, was restored by the city and serves as a House of Literature.

Deutsche Bank's legendary former head, Dr Hermann Abs, was instrumental in raising DM 15m to enable West Berlin's National Gallery to retain a valuable Watteau which was owned by Prinz Louis Ferdinand of Prussia who was in need of cash. The tradition continues as Deutsche Bank has bought a 17th century silver coin jug for DM 180,000 which it will present to Charlottenburg Castle.

East Berlin

Comecon's showcase

EAST BERLIN is the showcase of Comecon, the most prosperous city between Helmstadt at the East-West German border and Vladivostock on the Pacific Ocean. Statistically, is is an impressive success story.

Every fifth East Berliner — 250,000 of them — owns a car. Average monthly family incomes are some 1,750 Marks while apartment rents do not exceed six per cent of incomes. More than 200,000 East Berliners have moved into new flats in recent years and by 1990 the remaining 80,000 still on the waiting list are to get a new flat.

More East Berliners travel abroad — to other East European countries and Cuba — than the inhabitants of Moscow, Leningrad and Kiev together.

What then are East Berliners for ever complaining about? The reason for the endemic grumbling, of course, is their *proximity to West Berlin and inability* to go there.

The East German leader, President Eric Honecker

Imagine the feelings of an East Berliner watching an unemployed Gastarbeiter from West Berlin drive his car into East Berlin for an evening of inexpensive entertainment. Obtaining a car in East Germany entails a ten to twelve year wait and involves years of scrimping and saving.

East Berliners follow the 20 minute block of commercials each evening on the West German TV channel with a fascination which would warm an adman's heart. Letters are dispatched to relatives, friends and acquaintances in the West asking if they could mail them a l'Amour lipstick and some Choco crunchies.

Some Western products are available in the hard currency Intershops and the Delikat and Exquisit shops for their own currency. But not every East Berliner has access to West German DMs or can spend 8 Marks for a tin of mushrooms.

Those who do, especially car mechanics, plumbers, electricians and other repairmen are on the top of the totem pole. A plumber who *advertises his* eligibility in the lonely hearts columns of an East German newspaper will be deluged with responses from nubile women. A visit by a plumber or an appointment at a garage involves either a large bribe in East German Marks or a smaller one in DMs.

Accordingly, many of the poshest summer cottages on the lakes and waterways surrounding the city belong to artisans.

Invariably, when East Berliners gather these days the subject of conversation turns to a relative or friend who has had the incredible fortune to visit West Berlin or West Germany. After 25 years of the Wall, these visits are now possible at least for a small number of people.

Previously, only retired Easterners were allowed to visit the West but now younger citizens are also allowed out on brief visits. It is essential for them to be married, preferably to have children and a clean record although they need not be active politically. They are also rarely allowed out with their partners which explains why nearly all of them return home.

East Berlin has changed physically far more than West Berlin in recent years as its postwar rebuilding programme did not get under way until the 1970s. Just as in West German cities in the 1950s and 1960s, endless rows of concrete slab apartment buildings were strewn over East Berlin, eradicating the former streets.

A few years ago the authorities woke up to the fact that there was precious little urbanity left in East Berlin. But it was too late to prevent completion of a gigantic monument to misunderstood garden city housing, the pre-fab wasteland of the Marzahn housing estate which is home to 130,000 East Berliners.

City planners in East Berlin have returned to building flush with the line of traditional streets, using bay windows and other decorative elements to liven up concrete facades. The inner city working class borough of Prenzlauer Berg, where many buildings survived the wartime bombings and artillery, is being given a thorough facelift.

Teams of renovators are moving through street after street of neglected housing, restoring facades while installing bathrooms in flats which had no such facilities. The average cost of renovating a flat is 40,000 Marks but, unlike the West, tenants do not pay higher rent for the improvements. In spite of the low rents, though, many East Berlin families remain far behind in their rental payments to the city housing authority.

In much the same spirit, a growing number of East Berliners do not even bother to pay the nominal 20 *pfennig* fare for public transport.

A special attraction in Prenzlauer Berg is the Husemannstrasse where turn-of-the-century shops offer their wares and services along with historical restaurants. In a similar manner, an entire flattened section of Old Berlin around the rebuilt Nikolaikirche has been rebuilt in the past two years using prefabricated sections fitted with gables and other medieval features.

The church itself, Berlin's oldest, is to be dedicated in May as a city museum. The partial reconstruction of this corner of Old Berlin, however, is not nearly as convincing as the rebuilt Old Town of Warsaw or Budapest's restored Castle District. Nevertheless, it is a welcome relief from the monumentally-scaled buildings of Central East Berlin.

Friedrichstrasse, prewar Berlin's main entertainment street, is being rebuilt right up to the Wall and the crossing point into West Berlin at Checkpoint Charlie. Yet another luxury abode for Westerners, the Grand Hotel, is to be opened shortly in Friedrichstrasse where the rebuilt Friedrichstadt Palast offers some of Europe's best variety shows.

Another variety theatre, the Wintergarten of old, is also to be resurrected in the Friedrichstrasse which is to be enlivened with cafes, shops and restaurants. It is an attempt to lure East Berliners out of their flats in the evening hours when most of them spend their time vicariously in the West-watching West German TV.

Eberhard Diepgen, Mayor of West Berlin

Profile: Eberhard Diepgen

Mayor of strong presence

BLAND AND predictable, those appear to be the salient features of Mr Eberhard Diepgen when he became the Christian Democrat's (CDU) governing mayor of West Berlin in 1984.

But within months the young mayor called on the Western allies in the city to abolish a number of "obsolescent" post-war occupation laws (which they eventually did). He sounded more like an SPD man than a conservative on several social issues. One Greens politician in Berlin noted that Mr Diepgen surprised everyone by "overtaking the socialists in the left lane." He exemplifies the new generation of West German politicians who were unburdened by wartime guilt feelings.

Lately the governing mayor has ruffled allied feathers by inviting East Germany's leader to West Berlin next month. Conservative editorial writers who welcomed him in 1984 are now regretting that he ever became mayor.

Nothing seems to perturb the unflappable 45-year-old Mr Diepgen who is a product of the so-called "concrete squad" of young, self-confident city hall politicians. A lawyer by training, he fields questions about allied legal rights in Berlin with aplomb.

It is difficult to stop Mr Diepgen when talks turn to the future of Germany. West Berlin, in fact, is still the last bit of Germany left—neither governed by Bonn or by East Berlin but instead under the control of the three Western allies.

Mr Diepgen is confident that when Berlin celebrates its 800th anniversary 50 years from now it will no longer have a Wall and the city will "again have some form of unity."

"If there is a German national state by that time," he remarks, "then Berlin will be the capital." In the meanwhile he wants Berliners to regain as much freedom of movement between the two halves as possible. The thrust of Bonn's policy on East Germany and Berlin he says is to make sure West Berlin is not "excluded" from positive developments around the city.

He knows full well, however, that East Germany, for example, is not prepared to allow twinning agreements between boroughs in East and West Berlin such as those recently permitted between several cities in East and West Germany.

"It is important that Berlin not be treated as an object of policy but instead can make its own contributon," he observes, adding "of course, always within the framework of the four power Berlin agreement and the responsibility of the *three powers for West Berlin.*"

The mayor's voice sharpens when he explains that Germans in the West cannot be "patronised": "We are a self-confident nation and are allies (of the Western powers)."

"The relationship between the two Germany's is an emotional one for Germans. If the impression arose that the Germans are bound against their will this would act to the detriment of the protecting powers (in Berlin). Each party should look after his own interests aside from the parallel interests we have with each other."

In no circumstances, he explained, did this mean that the Germans want to embark on a separate political path. As for himself, he says he is venturing no further than the Allies have already gone in wanting to accept Mr Honecker's invitation to attend the 750th anniversary ceremony in East Berlin. The three allied embassies in East Berlin attended the New Year's concert there opening the ceremonies.

"The Allies are coming around to see my point of view," he remarks cheerily.

Mr Diepgen might have a long run as governing mayor if he can manage to prevent another local corruption scandal from raising its ugly head. He survived last year's serious affair involving bribery to city officials by West Berlin builders without too many scars *but it is doubtful whether he* could emerge unscathed a second time.

Profile: Götz Friedrich

Emperor of opera

Götz Friedrich: reigns over 1,000 employees

IT TOOK Götz Friedrich nine years and several detours—via Hamburg and London—to make his way from East Berlin's Komische Oper (Comic Opera) to become General Director of the Deutsche Oper in West Berlin.

During this time he captivated audiences throughout Europe with his singular interpretations of Wagner, Mozart, Verdi and Berg. But as a protegé of Walter Felsenstein's "realistic music theatre" at the Komische Oper he felt there was something lacking. Friedrich was in search of just the right *opera house with permanent* ensemble in order to produce his opera of the intellect and the senses.

He and staid Hamburg did not hit it off while he was chief director of the Hamburg State Opera after cutting the umbilical cord to Felstenstein in 1972. While Principal Producer at the Royal Opera Covent Garden he was also unable to put across *his ideas as London was largely* interested in spending money on star singers. None the less, his productions of the Ring and Lulu at Covent Garden were enormously popular.

It was a gamble to choose Janacek's "Mortuary" for his premiere in West Berlin in 1981 but he won. Friedrich's next production, Berg's Lulu in the three act version, was even better than his acclaimed London Lulu. As in Friedrich's subsequent production of Janacek's Katya Kabanova, ensemble teamwork and Karan Armstrong—his wife since 1979—in the lead role made the difference.

Friedrich reigns over an *operatic empire of* 1,000 employees in two houses—the other an operetta and musical theatre—and a budget this year of DM 97.5m of which DM 64m are state subsidies. Only Munich's opera has a larger budget in Germany than the Deutsche Oper Berlin. Elsewhere, the Paris Opera this year has a budget of DM 143m of which DM 100m are courtesy of the French Government.

But Friedrich is satisfied with the two per cent increase in spending he is given annually which he notes is "paradise" compared with London.

Tours such as the one to Japan later this year with an entourage of 350 persons are becoming almost prohibitively expensive. They would be out of the question if the West German Foreign Ministry, the city of West Berlin and patrons of the Deutsche Oper did not chip in with the finances.

Berlin's 750th anniversary means increased competition with East Berlin in the cultural sphere he notes, with new productions of Dr Faust, Die Huge*notten, Oedipus and Der Freis*chütz to be mounted. But he regrets the cultural rivalry is taking place "in a test tube" as East Berliners and East Germans are not permitted to partake of West Berlin's offerings.

In the situation of a divided city, he remarks, culture does not merely have an "alibi function" for society but is as important as economic life although more difficult to measure.

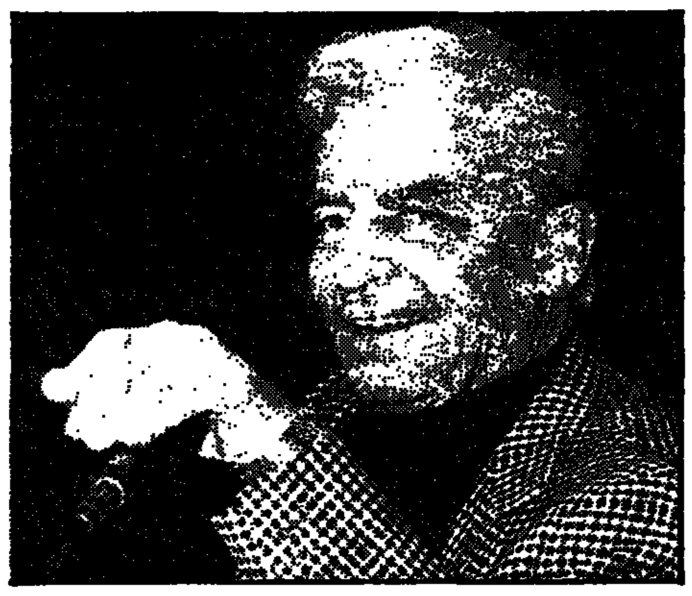
When Friedrich says the "European feeling" is most intense in Berlin he naturally includes East Berlin where he spent the fruitful years from 1953 to 1972 at the Komische Oper.

"Why should we have to go to Barcelona to get young singers when we could get them from the GDR?" he asks, adding wistfully "it's not easy, though."

Only one other European city could tempt him as a place to work and live, he offers, and that is Vienna. For the time being, though, he has a long-term contract to remain in Berlin.

Profile: Herbert von Karajan

A maestro hard to succeed



Herbert von Karajan, conductor of the Berlin Philharmonic

MUSIC CRITICS in West Berlin reviewing a concert by the Berlin Philharmonic Orchestra under its "lifetime" conductor, Herbert von Karajan, rarely fail to mention that the applause was "thunderous", "seemingly never-ending" or "of a demonstrative nature."

Such is the awe in which von Karajan is held that there is no public discussion in West Berlin over a possible successor to the 78-year-old maestro. For years he has suffered from a painful back ailment causing him to shuffle slowly to the conductor's box where a stool awaits him.

From the first note on, however, when his frail torso straightens, it is clear he has lost none of his élan or charisma. Each of the six double concerts he gives annually with the Berliners becomes a triumph of mind over matter.

The programmes as always are geared to the conservative tastes of the audience and, not least of all, to von Karajan's TV company which records each performance.

"Karajan is a musical, media and financial genius," notes one prominent German musician without malice. Another, remarks more acidly that conductors are—or should be—interchangeable while orchestras such as the Berlin Philharmonic are not.

Guest conductors appearing with the Berlin Philharmonic these days are invariably sized up by the audience as being either a worthy prospective successor to the living legend or not. Von Karajan himself entered the guessing game two years ago by suggesting that Semyon Bychkov, the young Russian-born American conductor, was his first choice. But competent though he is, Bychkov is not regarded as a front runner to succeed him.

Even if von Karajan decided to step down after more than three decades as chief conductor of the Berlin Philharmonic his successor would not be envied. For it is unlikely that another conductor would want to take over during von Karajan's lifetime knowing the inevitable comparisons which would be drawn. There is also the very real risk that von Karajan, with his foible for intrigue, would not make life easy for his heir.

THE ARTS

Behind the Mask/Channel 4

Andrew Clements

With more than a touch of serendipity, Channel 4 yesterday launched a major series devoted to the work of Harrison Birtwistle, in the week in which it was announced that he had been given both the Evening Standard Opera Award for 1986, and the highly prestigious Grawemyer Award, worth $150,000, whose only previous winners have been Lutoslawski and Ligeti. Channel 4 is to screen repeats of the Aquarius production of *Down by the Greenwood Side* and the Opera Factory *Punch and Judy*, as well as the first showing of Derek Bailey's television version of *Yan Tan Tethera*, based on last summer's Opera Factory staging. But the season began with Anthony Snell's documentary *Behind the Mask*, which proved to be one of the more successful and revealing composer portraits of recent times.

Alongside the usual array of talking heads—Peter Hall and Pierre Boulez conveying admiration for Birtwistle's achievement in their own, very different ways, Elgar Howarth and David Freeman hinting at the intricacies of putting on *The Mask of Orpheus*—there were substantial extracts from *Orpheus*, apparently the only video recording made of the ENO production, and from *Secret Theatre*. The elements were cross-cut in a subtle and fascinating way, building up a mosaic of the man and his music from a variety of perspectives, just as his own works map out their territory an angle, a context, at a time.

Most potent of all there was the composer himself, explaining his approach to inventing music, his techniques and their beginnings, and in a substantial section of the film made in his native Accrington, revisiting the farm where he grew up. Some of those personal revelations seemed almost too honest: he looked back on his early life as a kind of Arcadia, surrounded by wild woods and fields in which he wandered and absorbed the natural world. Then a gigantic power station was built beyond his father's land, dwarfing the house, violating the landscape. It clearly had a traumatic effect; his teenage music (in a sub-Vaughan-Williams style—the nearest thing to "modern" music he had experienced at the time became an attempt to express the savagery of that intrusion.

All of this experience has remained with Birtwistle: the quarry near his house, which he explored and now likens to a man-made geometry imposed on the natural world, even a hill peppered with sheep, just like the mound that dominates the setting of *Yan Tan Tethera*. That sense of violence threatening the most placid scene runs through his music, gives it a definition like none of his contemporaries. And, as the wondrous extracts from *The Mask of Orpheus* demonstrated, it's coupled with an ability to create images of a resonant, intricate beauty.

Yerma/Cottesloe

Claire Armitstead

Lorca wrote *Yerma* two years before *The House of Bernada Alba*, his last and arguably greatest play. Its appearance in a new translation hot on the heels of its stablemate—which was ecstatically received in a Lyric, Hammersmith, production last year—arouses expectations that are sorely disappointed by Di Trevis' treatment. The expectations are the higher and the disappointment the sorer because this is the National Theatre under that rarity, a woman director, handling a tragedy that grows out of a wholly female neurosis and despair.

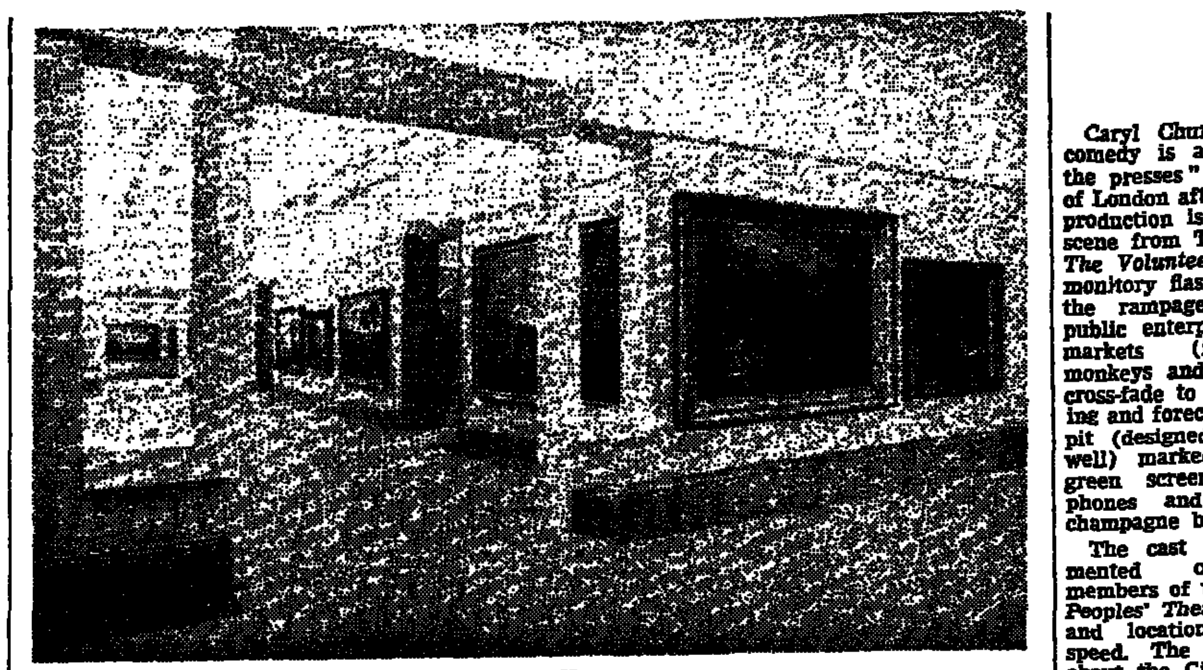
Yerma, eponymous protagonist of the play, is a barren Andalusian countrywoman in a society where fertility is all. Guarded by her husband's two spinster sisters, frustrated by her physical inadequacy, and trussed by her own sense of honour to an unimaginitive shepherd husband, she falls prey to emotions the intensity of which will be readily understood by any woman who has endured the anguish of infertility—a hard enough cross to bear today.

Juliet Stevenson, a strong and intelligent actress, plays these emotions for all they are worth. Initially she is a girlish, beseeching figure whose hands flutter involuntarily to her stomach and breasts as she learns of her friend's pregnancy or attends to her husband's needs. Left alone, the sensualist within her emerges through self-caresses and an effecting love song to her unborn child. A little too quickly, the flame grows to a flame of bitter, frustrate anger: the would-be mother, full of the do's and dont's of other people's pregnancies, becomes a self-condemned outcast who thrusts her hand under her skirts and brings it out red with blood—sign that another month has gone.

The image is carefully calculated for maximum effect against the subdued costumes and bare grey floor of a theatre that is set in the round with washing festooned from the balconies. Colour takes in its usual symbolic resonance in a design, by Pamela Howard and Bunny Christie, that echoes the repeated equation of barrenness with stony ground. What works well once becomes a little too predictable when Yerma makes her pilgriage to a sanctuary reputed to work miracles of fertility. The Bacchanalian qualities of what is really a free-for-all are underlined by flamenco dancers clutching scarlet roses, with their entourage of blousy peasant miscreants.

The fact that this is a folk tragedy is stomped home through the sanctuary encounter and an earlier washing scene, where the same blousy peasant women pound their linen and chew over the brewing scandal of Yerma's flirtation with a childhood sweetheart. All of which is fine, but it fails to cover up some odd casting — notably of Anne Dyson as the old pagan woman. Aside from the occasional verbal stumble, this is not a woman one could imagine throwing her skirts over her head. An important contrast is lost with Yerma's poker-stiff sisters-in-law (Kate Dyson and Tel Stevens) who are pulled by such overt directorial strings as at one point to walk deliberately into Yerma, forcing her to step backwards to avoid a collision.

Such obvious devices are small compensation for a true sense of the domestic oppressiveness which should be the flip side of the pastoral gaiety. The failure to establish this, and the tendency to go into melodramatic overdrive must be blamed partly on a translation by Peter Luke which has Yerma manically repeating the word "barren . . . barren" as she throttles her husband and her hopes. In the original Spanish the word would be "yermo"—her own name mouthed over and over, accusing, elegaic and empty.



Clore Gallery

Architecture/Colin Amery

Temple for Turner's genius

You approach it through the garden—on the picturesque route—turning away from the Tate Gallery itself into the entrance cut out of the stone wall. Glance up at the lunette window above the entrance—shades of George Dance and the great prison wall of Newgate. Glance to your left at the chequer board of brick and stucco—shades of Lutyens around the corner and his piebald Page Street flats.

The new Clore Wing for the Turner Collection at the Tate Gallery is the first major London building designed by James Stirling, Michael Wilford and Associates. They are famous as the architects of the Staatsgalerie in Stuttgart and in fact have quite a line in art galleries: there is the Sackler Wing of the Fogg Museum at Harvard, the Tate Gallery in the Albert Dock in Liverpool, and projected designs for the extension of the Brera in Milan and the new wing for the Thyssen-Bornemisza Collection at the Villa Favorita in Lugano.

It is important to realise, looking for the first time at the completed Clore Gallery, that it represents the first stage of the full-scale expansion of the Tate. Behind the Turner Collection, on what was the old Queen Alexandra Military Hospital site, it is planned to build a Modern Sculpture Museum, a New Art Museum (surely something of a contradiction here), and a major Study Centre. All have been designed by James Stirling and plans are afoot—but no designs—for the final phase, the Museum of Twentieth Century Art.

The key question to be asked about this new gallery is, how well has the architect served the genius of Turner? If more evidence was needed, the new display of Turner's works on canvas and paper as seen here prove beyond doubt the greatness of his talent and the wonderful development of his vision. It is for my colleague, William Packer to write about the collection and its display but the presence of the genius of Turner is what this building has to be about.

Mr Stirling has a powerful individual vision. It is not as coherent as Turner's, but what he is good at is carving impressive spaces out of the giant fragments of architectural history. On a small site at the Tate he has accomplished two important achievements: one is a finely proportioned set of nine rooms for the pictures, the other is an ingeniously scaled public entrance area that has undeniable presence and formality.

Let us dispose of the outside quickly. There is, at least for the modern architecture watcher, an intriguing series of references and games here. Stone and brick are cut away at entrance and corner as though the building was made of cardboard. Windows become breaks in the cornice, squares in patterns are toyed with as aplied decoration, the ghost of the Bauhaus lives on in the street elevation and chaos reigns on the roof where plant is scattered with a liberality that is profligate. Shades of the day-glo sixties linger in the choice of vivid green for the windows.

Inside the first impression is a strong one. The main staircase that leads to the galleries sweeps across the main hall at right angles in front of you. The chequer pattern from outside is repeated on the main wall in peachy orange painted plaster. The floor is a dignified London pink granite. A Sutherland portrait of the benefactor, the late Sir Charles Clore, is flanked by coarse and ugly uplighters. A jovial column—playing a game with the cylinder and the cube—seems to have been placed to deliberately frustrate access to the information counter. I liked the curvaceous and solid built-in furniture.

The galleries are a simple and elegant series of rooms. I felt instinctively that they are all too narrow. One token bay window was all that conservation permits. In good daylight the elaborate roof shape reflects light down on to the pictures. I did not see the galleries on a good day and so the visible flourescent lights were on. The effect of these is unsympathetic: you see in your head the reflection of the bright tubes as you do when you close your eyes after looking at a light bulb. I hope that the lightning effect I saw on a dull day, when the ceiling plane shone out bright and white and some of the pictures had shadows along the tops from the frames, was a rehearsal.

The wall colour is problematical. The architect wanted a cool and serene effect and the decision was made to have oatmeal hessian wall coverings. The curatorial staff would have preferred a red tone—as Turner himself had in his own gallery

There are other problems in the design of an effective gallery. Not the least of these is the question of the security of the paintings. There has been much debate at the Tate about the need to keep the visitor at a suitable distance from valuable paintings shown without glass. The present temporary arrangement of ropes in front of the pictures is unsightly and damaging to the calm effect of the galleries rightly wanted by the architects. If there has to be a visible barrier surely it should be sensitively designed by the architects as part of the overall design of the rooms. The suggestion of a barrier in the change of the nature of the floor surface — from carpet to wood is not, as at present designed, emphatic enough.

What is a major achievement for a British gallery is that the complex and elaborate technical side of the display of paintings is kept under control. There are no creaking and moving parts that characterised the 1970s extension's attitude to light control. The forms of the Clore's galleries are refined and handsome. The provision of live light is going to be the great excitement of the galleries and the teething problems will no doubt be solved.

It was Ruskin, the great friend of Turner, who wrote that architecture should be entertaining. He prefaced this by saying that architecture should always be correct. I predict that this addition at the Tate Gallery will be warmly welcomed as a good example of the formal monumentality that Mr Stirling has made his own style. There is evidence here of an architect developing his own substantial voice; there are some wrong notes, but the total performance is a bravura one.

The correctness of modern architecture is something that has become impossible to define. You know when it is wrong more easily than you sense its contrived moments of perfection. It is perhaps unfair to compare the balance of Turner's creations to the uneveness of this building. Stirling has created an intensely individual home for the artist—it is a temple but an uncertain one.

Eugen Jochum

Eugen Jochum, who died last week at the age of 84, was one of the last German conductors of towering stature. He spent the war years conducting orchestras in Hamburg and Amsterdam (but, since his political character was unstained, the association with the Concertgebouw survived long after wartime constraints had ended); afterwards he was based mainly in Munich.

In spite of much operatic experience (of which the DG *Meistersinger* recording with Fischer-Dieskau and Domingo is perhaps the finest memento), Jochum will be remembered as one of the great adherents to the Austro-German symphonic tradition—and above all, perhaps, as a conductor of Bruckner, whose works he championed long before their current popularity.

M.L.

Serious Money/Royal Court

Michael Coveney

Caryl Churchill's expositive comedy is a hectic "hot off the presses" look at the City of London after Big Bang. The production is prefaced with a scene from Thomas Shadwell's *The Volunteers* (1692), a premonitory flash of a nation on the rampage for shares in public enterprises and leisure markets (for performing monkeys and rope acts). We cross-fade to a babble of dealing and forecasting in a trading pit (designed by Peter Hartwell) marked off with busy green screens, leaping telephones and a well-stocked champagne bar.

The cast of eight (supplemented occasionally by members of the Court's Young Peoples' Theatre) switch roles and locations with dizzying speed. The play is as much about the City as about Wall Street and, indeed, the explosion in international dealing that has put paid to the clubbiness and cartel of the City.

A ruthless takeover bid by Billy Corman, a corporate raider, is at the heart of a Catherine wheel of related flying sparks: the end of the Stock Exchange village street, insider trading ratified by covert operations through the banks, a new York arbitrageur toying with the UK deal, the visceral appeal to the yuppie traders of futures and options as a mixture of roulette and space invaders, the Third World debt, the cocaine market, sex scandals and image-boosting sponsorship forays, an inquiry by the Department of Trade and Industry, a suicide.

It sounds exhilarating and some of it is. It is easy to put up with some sloppiness in Max Stafford-Clark's production when Alfred Molina as the American banker embraces the house in his million-making arid materialism, or when Gary Oldman as the clenched and frenetic Corman descends on the dealing pit with the driven, finger-stabbing mania of a Petticoat Lane china stallholder in foul-mouthed overdrive. There are good moments of explanation, and even better ones of musical explosion at the end of each half—both songs have words by Ian Dury, the first an obscenity scat chant for gaudily-jacketed trading oiks, the second a pulsating pub rock hymn to five more glorious years of a Tory Government, concupiscence and ratified pillage.

But Ms Churchill has spun a thriller narrative through the middle of the dealings and betrayals that is both feeble and muddling. There is a hovering air of what it is that has driven the public schoolboy Jake (Julian Wadham) to suicide, but the details are buried in such awkwardly affixed second act developments as the copper mine sales of a Peruvian heiress and the cocaine market manoeuvrings of an Eton-educated Nigerian potentate. And even readers of this newspaper may wonder what has Jake actually *done* and what is the connection between the DTI investigation and the little Yorkshire businessman whose go-getting secretary has, without his approval, put his name to an artistic mural.

There are pleasurable echoes, you will have noted, of the Guinness affair, the Boesky business and the Halpern hype, although the extraordinary sight of Mr Ralph Halpern and his loyal wife being cheered to the echo by shareholders shortly after the revelations about his private life is never really improved upon by Ms Churchill. I believe this is something to do with her dogged, graffiti-like approach. No question, she and the cast have done their homework. But there is more theatrical juice and conviction in a public play like *Brassneck*, David Hare's and Howard Brenton's panoramic view of finance and the family in the Britain of a decade or so ago after Poulson, T. Dan Smith, Wilson and John Bloom; or in the same pair's recent *Pravda*.

Neither was probably as earnestly researched as *Serious Money*, but in yielding stronger theatrical resonance they caught a spirit of the times more successfully. Ms Churchill's technique of wrapping the text up in a versifying mélange of Victorian pantomime couplets and second-rate doggerel after the style of Steven Berkoff is another great drawback. Where iambics are used, the scansion is erratic and annoying. And the rhyming of four-letter crudities becomes predictable and uninventive. The idea is to catch the desperate furore and noisiness of the dealers' world, but the text needs much more highlighting and pointing—the overlapping dialogue passages and ensemble "blah-blahs" are just messy.

The play is certain to be successful, as the topic is so hot and the subject itself an excitingly new one for the theatre. But it marks no great development in Ms Churchill's compositional methods, no advance on *Top Girls* or *Cloud Nine*. Mr Oldman's wound-up thuggery becomes, in the end, tedious and repetitive (his arriviste oik is a pin-striped relation, no doubt, to his cinema creations of Sid Vicious and Joe Orton); Lesley Manville supplies her personal brand of prissy sensuality as the avenging sister who joins the party—although Sloanie-ness is oddly disquieting in short girls. But, apart from Mr Molina, the sharpest and most enjoyable contributions come from Linda Bassett, an actress who never ceases to astonish me with her range and versatility, and the curly-haired jack-in-a-box yclept Allan Corduner.

The Maid of Orleans/Logan Hall

Max Loppert

Chelsea Opera Group provided in Thursday's concert one of their most valuable and rewarding recent deeds of operatic reclamation. Chaikovsky's sixth opera, *The Maid of Orleans*, has had a generally bad Press—"vast vistas of undistinguished music" is the judgment of the Chaikovsky scholar David Brown in the New Grove, and it can stand for many others. We may not have come away from the Logan Hall determined to lay siege to the ENO until they add the work to their repertory (as they previously did another lesser-known Chaikovsky opera, *Mazeppa*, after an earlier Chelsea Opera concert performance). But, at the very least, the dismissal of the work *tout court* was made to seem absurdly rash.

The main trouble with the work is that its various styles and manners don't fit together. Even more than *Mazeppa*, which comes next in the Chaikovsky operatic canon, *The Maid* shows the composer grappling—vigorously but not always to clear purpose — with operatic structures inherited from the Meyerbeer brand of Grand Opera. Chaikovsky devised the libretto himself (drawing mainly on Schiller's play), and filled it with incidents and scenes ripe for Grand Opera treatment; the influence of *Les Huguenots* and *Le Prophète* (in the Act 3 coronation scene) is obvious.

The difficulty is not so much that the "big" music is all of inferior quality (some of it is, but none so weak as Meyerbeer himself, and that of the Act finale provides a lesson in the bold, stirring use of asymmetrical melody). But it sorts unevenly with the other, more personal elements of the musical invention. In the music for Joan (especially in duet with her Bergundian knight-lover Lionel), in such things as the tender little duet for Charles VII and his mistress Agnes Sorel, we suddenly recall the intense "speaking" quality of Chaikovsky's operatic voice at its most charactertstic. But it tends to be heard only intermittently—and what comes bebween its utterances, though often scored with brilliant resourcefulness, sounds mechanical by comparison.

That there is nevertheless much beautiful, high-temepered, heartfelt music in *The Maid of Orleans* is now proved: this Chelsea Opera Group performance under Paul Daniel's inspired direction made one feel that none of the "in-between" passages is wholly without merit. It is a substantial undertaking for a semi-amateur group of this kind—the choral writing is complex, the scoring heavy, and 12 good singers are required for the solo parts. The challenge was robustly met. The long four-act opera was snipped here and there, never insensitively hard (though Meyerbeerian finales tend to sound more distinguished when all their internal repeats are left in place).

Many of Thursday's singers are, like Mr Daniel, regular ENO artists. All rose handsomely to the opportunity for showing unfamiliar dimensions to their performing personalities. In the title role Sally Burgess sang many warm, touching, eloquently shaped phrases, even if it was really meant for a higher more powerful voice than hers, and taxed her in places. The leading baritones Neil Howlett (Lionel) and Steven Page (Dunois) were particularly striking. John Treleaven (Charles) started sluggishly but sang out more vigorously later on. The young, fresh voices of Alastair Miles, Elizabeth Byrne (as Agnes Sorel), and Paul Harrhy responded with attractive ardour to Chaikovsky's broadly arched vocal writing.

Panufnik & Matthews/Elizabeth Hall

Andrew Clements

The English Chamber Orchestra quietly works away at its own corner of contemporary music. It may not be a concept of contemporary music shared by, say, the London Sinfonietta, but it is faithfully followed and regularly programmed. Thursday's Elizabeth Hall concert, conducted by Carl Davis, brought two works new to London—Andrzej Panufnik's Bassoon Concerto (the European première), and David Matthews's Variations for Strings, commissioned by the ECO and first played in a concert at Uppingham School earlier last week.

Neither piece breaks new ground for its composer, though Matthews's finely idiomatic string writing and lucid harmonic sense offered more sustenance than Panufnik's endlessly circular geometrics. The Bassoon Concerto was commissioned by Thursday's soloist Robert Thompson with Polanki, a Polish cultural organisation in Milwaukee, and is dedicated to the memory of Father Jerzy Popieluszko, the Catholic priest murdered in Poland in 1984. It alternates moods of angry rhetoric and elegiac melancholy; the solo writing contains almost all the melodic interest there is. But the material is so limited, constantly eked out with repetition and permutation, that the final impression is of a work occupied with a musical honeycomb—of no real substance just a rigid, unyielding structure.

Matthews's scheme is straightforward—eight variations, with the statement of the theme (Bach's chorale "*Die Nacht ist kommen*") delayed until the end and then followed by a brief reprise of the first variation. It is thoroughly worked and neatly integrated, with melodic and rhythmic figures interlocking through the set, but ultimately rather impersonal, as if all the good handwork has so far inhibited the emergence of Matthews's own creative personality.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

March 27–April 2

Music

BRUSSELS

Mozarteum Orchesta Salzburg conducted by Hans Graf with Mihaela Martin, violin. Mozart, Schubert (Tue).

Belgian National Orchestra conducted by Mendi Rodan with R. Buchbinder, piano. Wagner, Schumann, Mussorgsky (Thur).

NETHERLANDS

Amsterdam, Concertgebouw. Frans Brüggen with the Orchestra of the 18th Century: Bach, Schubert, Mendelssohn (Tue). Recital Hall: Jean-Jacques Kantorow conducting the Orchestre de Chambre d'Auvergne, with Marieke Blankestijn, violin. Stravinsky, Bach, Schubert (Tue). (71 83 45).

Rotterdam, Doelen. Organ recital by Arie Keijzer: Bach, C.P.E. Bach, Keijzer, Franck (Mon). James Conlon conducting the Rotterdam Philharmonic, with Maria Joao Pires, piano: Wagenaar, Mozart, Debussy (Tue to Thur). (414 29 11).

Bach concert for Passiontide and Easter from the Netherlands Chamber Choir and the Amsterdam Bach Soloists conducted by Michel Corboz, Wed in Nijmegen, Vereniging (22 11 00), Thur in Haarlem, Concertgebouw (32 09 94).

Zwolle, Odeon. The London Fortepiano Trio: Mozart, Haydn (Wed). (21 85 00).

Utrecht, Vredenburg. Mitsuko Uchida, piano: Mozart, Schoenberg, Schubert, Chopin (Tue). Recital Hall: The Orlando Quartet with Rian de Waal, piano: Brahms (Mon). (31 45 44).

Scheveningen, Circus Theatre. International cello concours. Mon: semi-finals, Tue: final with the Hague Philharmonic conducted by Othmar Maga (55 88 00).

Groningen, Oosterpoort. Mahler recital by Jard van Nes, mezzo-soprano (Tue). (13 10 44).

LONDON

English Chamber Orchestra conducted by Oliver Gilmour with Anthony Goldstone, piano. Mozart. Barbican Hall (Tue). (638 8891).

London Philharmonic conducted by Okko Kamu with Nigel Kennedy, violin. Sibelius, Tchaikovsky and Nielsen. Royal Festival Hall (Tue). (928 3191).

Bach Choir and English Chamber Orchestra conducted by Sir David Willcocks. Soloists. Bach St John Passion. Royal Festival Hall (Wed).

London Symphony Orchestra conducted by Neeme Jarvi with Cecile Ousset, piano. Dvořák, Rachmaninov and Brahms. Barbican Hall (Thur).

BBC Symphony Orchestra and BBC Singers conducted by Bernard Rands and David Atherton with Elaine Barry, soprano. Bernard Rands and Shostakovich. Royal Festival Hall (Thur).

City of London Sinfonia conducted by Richard Hickox. Britten and Shostakovich. Queen Elizabeth Hall (Thur). (928 3191).

PARIS

Ensemble Intercontemporain conducted by Michel Tabachnik, New London Chamber Choir conducted by James Wood: Varese, Gerard Masson, Michel Tabachnik (Mon). Théâtre de la Ville (4274 2277).

Rolando Panerai, baritone, Michele LaGrange, soprano, Elizabeth Cooper, piano: Rossini, Bellini, Verdi (Mon, 6.30pm). TMP-Chatelet (4233 4444).

Cello Quatuor Arcana: Bartok, Florentz, Ligeti, Debussy (Tue). Auditorium des Halles (4562 8757).

Soiree of Viennese Music (Tue). Salle Gaveau (4563 2030).

Almut Roessler, organ: Olivier Messiaen (Tue). Radio France (4524 1516).

Olivier Benss, guitar, Richard Siegel, harpsichord: Vivaldi, Ponce, Beethoven. Villa Lobos (Thur). Salle Gaveau (4563 2030).

Orchestre National de l'Ile de France conducted by Eve Queler with Rosalind Plowright: Verdi, Bellini, Spontini (Thur). Salle Pleyel (4561 0630).

CHICAGO

Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting, Jerome Rose piano. Stravinsky, Liszt, Strauss (Thur). (435 8111).

NEW YORK

Carnegie Hall: Orchestra of St. Luke's. James Galway conductor and flute solo. All Mozart programme; Chamber Orchestra of Europe. Lorin Maazel conducting. Mozart, Bizet (Thur). (247 7800).

Chamber Music Society of Lincoln Center (Alice Tully): Charles Wadsworth artistic director, Tobias Picker piano. Handel, Brahms, Tobias Picker (world premiere), Beethoven (Mon, Tue). Lincoln Center (362 1911).

Merkin Hall (Goodman House): Music Spectrum. Boris Berman music director and piano. Shostakovich, Arvo Paert, Stravinsky, Taneyev (Wed); Boston Camerata. Joel Cohen director. Elizabethan music including Byrd, Dowland, Morley (Thur). 67th w. of Broadway (362 8719).

New York Philharmonic (Avery Fisher Hall): Stanislaw Skrowaczewski conducting, Lorne Munroe 'cello. Boccherini, Bruckner (Tue); Stanislaw Skrowaczewski conducting, Krystian Zimerman piano. All-Brahms programme (Thur). Lincoln Center (874 2424).

Waverly Consort (Alice Tully Hall): Theatre and dance music of the age of Cervantes (Thur). Lincoln Center (362 1911).

Chichester's four for 1987

The four productions for the 1987 Chichester Festival Theatre's season, which runs from April 29 to September 26, are *Robert and Elizabeth*, *An Ideal Husband*, *A Man For All Seasons* and *Miranda*.

Robert and Elizabeth, the musical based on the lives of Robert Browning and Elizabeth Barrett, stars Mark Wynter and a new singer, Gaynor Miles. The book and lyrics are by Ronald Millier, music by Ron Grainer and directed by Stewart Trotter.

Joanna Lumley makes her Chichester début in Oscar Wilde's *An Ideal Husband*, with David Gwillim, Lucy Fleming and Amanda Waring also in the cast. Kenneth Ives directs.

Robert Bolt's *Man For All Seasons* is directed by Frank Hauser, with Tony Britton as Sir Thomas More. The season ends with *Miranda*, a new comedy by Beverley Cross—after Carlo Goldini—starring Penelope Keith. Wendy Toye directs.

'Kiss Me Kate' at the Old Vic

The Royal Shakespeare Company's production of Cole Porter's *Kiss Me Kate* will open in London at The Old Vic on May 19 headed by the same cast as at Stratford—Paul Jones, Nichola McAuliffe, Tim Flavin and Fiona Hendley.

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Monday March 30 1987

Escalation in the chips war

IF THE multilateral trading system enshrined in the General Agreement on Tariffs and Trade is to survive, it needs the whole-hearted support and commitment of the United States. That commitment looks fragile. At the end of last week the Reagan Administration announced plans to impose tariffs on certain Japanese electronic products. This is to punish Japanese companies for their alleged failure to abide by the terms of last year's semiconductor trade agreement between the two countries, which was designed to curb predatory pricing by Japanese manufacturers and to open up Japan's domestic market to US suppliers. That agreement was itself of doubtful legality under Gatt rules; the European Community is challenging it. Last week's decision is even more dangerous. By resorting to aggressive, unilateral action, the US is setting a bad example just at the time when a new Gatt round of multilateral trade negotiations is getting under way.

There are two possible justifications for the American action. The Administration needs to show Congress that it is prepared to talk tough and to act tough, that existing trade legislation permits it to do so, and that there is no need for more extreme protectionist proposals. The Administration presumably hopes that the new tariffs, which will affect only a small proportion of total Japanese electronics exports, will not provoke Japan into serious retaliation, but will induce a stronger effort to enforce the terms of the semiconductor agreement. The risk is that, by leaning so far in the direction of bilateralism and reciprocity, the US Government will find it impossible to climb back.

Leading players

A second issue is the claimed difficulty of applying Gatt rules to high-technology products. The American semiconductor makers have long argued that Japan has targeted their sector of the electronics industry, that Japanese producers, with their deep pockets and so-called laser-beam approach, have used predatory pricing to drive rivals out of business and that the result will be Japanese domination of the world semiconductor market.

It is true that the Japanese have overtaken the US in production of commodity memory chips. They are poised to advance in the more sophisticated areas such as microprocessors. Japanese prowess in high-volume, high-quality manufacture makes them formidable competitors. But there are other branches of electronics, including parts of the semiconductor market itself, where the Americans are still the leading players. It is entirely reasonable for the Americans both to use normal anti-dumping procedures and to press for freer access to the Japanese market, especially in products where they have a comparative advantage. But the attempt to regulate trade in semiconductors through bilateral negotiations is wrong in principle and almost certainly ineffective in practice. Piling on new sanctions in an effort to enforce it will damage the world trading system without improving the competitiveness of US semiconductor makers.

Gatt negotiations

The US action will encourage the view in Europe that the only way to deal with the Japanese is not only to brandish a big stick but to use it. Japan's progress in opening up its economy to foreign participation is frustratingly slow. There are legitimate grounds for Western anger in such fields as telecommunications and agriculture, where the forces of conservatism in Japan are hard to budge. But political leaders in the US and Europe too often seem to forget that the Japanese trade surplus has very little to do with real or imagined protectionism or unfair trading practices. Moreover, they are increasingly tending to see trade issues in terms of protecting or promoting national industries.

Yet all the major industrial countries—and developing ones too—have just committed themselves to the Uruguay round of Gatt trade negotiations in which the re-establishment of the principle of non-discrimination is a central objective. It is extremely worrying that political leaders are making no attempt to proclaim the virtues and benefits of a liberal trading system, but instead are pandering to the protectionist instincts of national interest groups.

Bringing the law into disrepute

CRIMINAL JUSTICE, like any other department of state, cannot be expected to function faultlessly in this country or any other. Nor does a spasm of public outrage at the handling of a particular case provide the best occasion for the dispassionate consideration of the need for reform. Yet if the public is repeatedly seen to be unhappy about the way that justice is being administered, even judges may be open-minded enough to admit that there may be some weaknesses in the system.

In the past few months, it has been found that some convictions for murder have a less than adequate foundation and the cases have been re-opened. The man subsequently convicted of the murder of PC Blakelock in the Tottenham riots was originally released on bail while awaiting trial for another murder charge. In general, there is a feeling of unease that sentences for violent crimes against the person can be too lenient. This

One problem is the absence of sufficient remedies by appeal procedures. It should be the business of the courts, not the Home Secretary, to re-open proceedings if new evidence becomes available which brings an earlier verdict of guilty into doubt. Not only the accused, but also the prosecution should have the possibility of appealing both against the verdict and the sentence.

But that is not enough. UK prisons are overcrowded to the point where a higher percentage of the population is in jail than in any other European country except Turkey. Some people are sent to prison who could be better dealt with in other ways; others are let out when they should be kept in.

Lenient decisions

Yet a recent series of lenient decisions and judicial pronouncements suggests that judges and magistrates do not always share the public's abhorrence of violent crime. The latest statistics available for 1984 indicate that of 6,855 males found guilty of violence against the person, over 33 per cent received a non-custodial sentence, but only 27 per cent (4,177 out of 15,408) of those found guilty of burglary. Even more telling is that out of 15,176 males found guilty of theft, handling, fraud and forgery—a category which includes a large proportion of petty crime—well over half were sent to prison.

The publicity given to the murder of PC Blakelock overshadowed the almost simultaneous news that a young mother was sentenced to a week's imprisonment for failing to pay more than £30 towards a library fine of some £150. The £30 she paid was more than her weekly allowance from social security.

Taken together, these two incidents, as well as the statistics, illustrate that the judiciary, which is sometimes lenient towards murderers and rapists, can be extremely hard when dealing with offenders against property.

Awaiting trial

Sending petty offenders to prison leads to overcrowding. In a single year, from 1984-85, the total intake in prisons of both untried and convicted but unsentenced prisoners increased by almost 5 per cent. The estimated average time spent in custody by untried prisoners increased from 15 days in 1956 to 55 days in 1985. In the past 20 years the proportion of the prison population kept there awaiting trial increased from 9 to 18 per cent, and it is estimated that about 10,000 prisoners are now awaiting trial. This explains a certain pressure on judges to grant bail as often as possible.

However, of those now awaiting trial in prison, only a small minority is accused of serious violent crime. A great number of petty criminals are refused bail only because they are "of no fixed abode," which is an inadequate reason in the circumstances.

Even as it now stands, the law could be operated in a way which might afford society a greater protection against violent crime while reducing the overcrowding of prisons by petty criminals. A better selection and training of judges and magistrates is one of the suggested remedies, but is bound to take time. By contrast, the present Bail Act can be changed quickly. Its "presumption" if favour of granting bail should be retained only for non-violent crime.

PRIVATISING ELECTRICITY

Twice as big as gas, and harder

By Max Wilkinson, Resources Editor

AS MRS THATCHER and her advisers draw up their agenda for the next general election, one central question must be: what's in it for Sid, that mythical man in the street who made a tidy profit from the sale of British Gas last year?

Most Tories see privatisation as such a political success story that they will be eager to keep the pages turning. But suitable assets for sale become progressively scarcer; if the party wants to maintain its momentum in liberating the Titans of the state sector, the electricity industry must be the next candidate.

However, as senior ministers have recognised, electricity presents a series of peculiar difficulties. These include anxieties about the ownership of nuclear power, the size and immobility of the industry's assets, its closely integrated structure, the politics of its relations with British Coal and the huge appetite for capital which it is likely to show in the next 20 years.

Some Conservatives even question whether the electricity industry represents the high tide mark for denationalisation, at least for the time being. But others say that the industry's plans for a major programme of power station building present the Government with just the right chance to steer it on a new course, towards a more competitive structure and the disciplines of the capital markets.

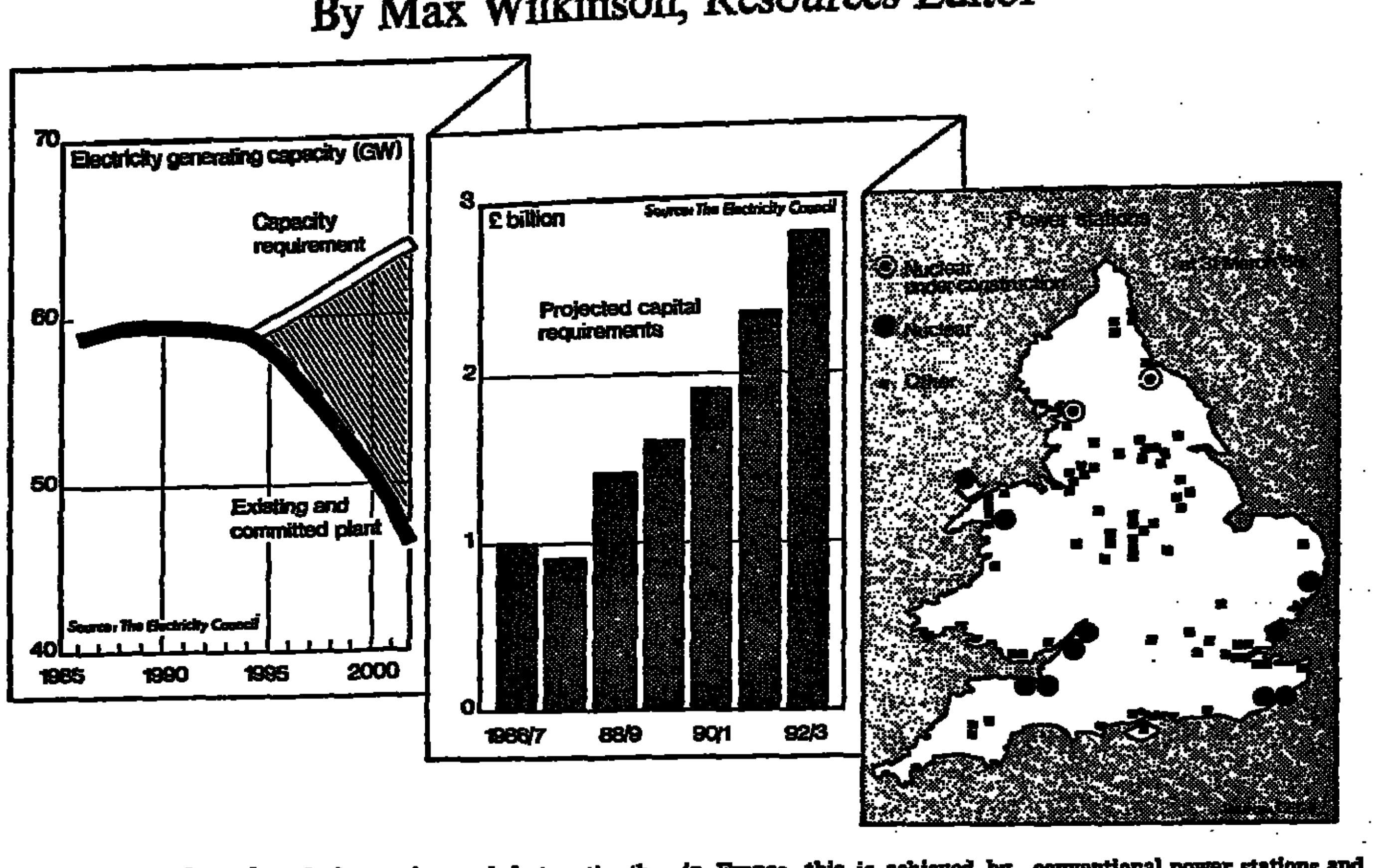
This debate has inevitably reopened the fundamental question: what is privatisation for? Many ministers, including Mr Nigel Lawson, the Chancellor, conceived it mainly as a way of improving competition.

Nevertheless, the Government has drifted into a more pragmatic policy of privatising large monopolies whole, with minimal efforts to change their competitive environment. In the case of British Gas, ministers opted for a quick sale to short-circuit the delays and argument that would have been needed to break it up into regional companies.

One obvious lesson for the Government should have been that any ambition to break up the electricity industry into more competitive units would need to be discussed and agreed well in advance. But it was a lesson which ministers preferred not to heed, partly because of the diversions of the miners' strike in 1984-85 and later because of the excitement of the great gas sale. Even now discussion has only reached the foothills of policy.

With assets valued at £37bn, the industry's market value might be £10bn to £15bn compared with the £5.6bn raised for British Gas. The scale of its investments is also large. The new pressurised water nuclear reactor (PWR) at Sizewell B in Suffolk will cost £1.6bn, for example, and the industry's projections suggest that power stations will need to be built at the rate of about one a year for the next 20 years.

Some studies suggest the investment needed by the year 2010 might be of the order of £50bn, to meet rising demand and replace the ageing power stations of the 1950s and 1960s. Such a programme would be comparable to the development of the North Sea oil fields so far, but the chance of large profits would be small.



There is no reson, in principle, why at least part of this task should not be undertaken by the private sector. Indeed this might suit Treasury arithmetic, although it would make no important difference to the call on national resources.

Privately owned electricity utilities are the rule rather than the exception in the developed world. It was the private sector which developed electric power in Britain from 1881, when the streets of Godalming were first illumined by the invisible ampere, right up to nationalisation in 1947, when 560 undertakings were brought together.

The kind of structure that existed in Britain before the Second World War survives and more or less prospers in the US, where 3,000 separate utilities supply electricity to small towns and regions. The 300 of them in private ownership operate most of the nuclear power stations and provide about three quarters of the nation's electricity. In West Germany, Japan and Sweden, private companies also play an important part in electricity generation, although often in co-operation with public sector bodies.

In the US and in Sweden, quite sophisticated markets have been developed for electricity undertakings to trade power. Computer technology can allow something like a spot market to develop with utilities bidding for power minute by minute as demand rises or falls.

For Conservatives who believe that the spur of market forces is needed to stir the lumbering bureaucracy of nationalised industries, this kind of development has great appeal. But few people, least of all those who have studied the US system, believe that electricity supply can be left entirely to the sway of free markets.

Some form of control is needed to prevent consumers from being exploited by distribution companies; and regulation may also be required at the wholesale level, if a generating company has a monopoly

> Present uncertainties must be compounded by doubts whether government would allow private utilities to operate in an unfettered market environment

or even a powerful position. One difficulty in framing such regulations is that an efficient system requires co-operation between large generating units. Big power stations are intrinsically better at converting heat into electric power. For this reason the typical size of turbine generators in the UK increased tenfold in the 1950s and 1960s, from around 50MW to more than 500MW.

To keep costs down, it is also important that the most efficient power stations are kept running, whoever owns them, while those with higher marginal costs are on standby or shut down.

In England and Wales, and in France, this is achieved by connecting power stations through a national grid run by a single authority. The CEGB operates a sophisticated "merit order system," with power stations switched in and out according to their efficiency rating. It is important that any privatised system should preserve this advantage. The cost of running an inefficient coal-fired power station rather than a nuclear plant, for example, can be £150,000 per day.

In the US, smaller utilities try to achieve similar results by trading power with their neighbours. However, a study by Professors Paul Joskow and Mr Richard Schmalensee, for the US Department of Energy, suggests that for the greatest gains, a high degree of integration within a large system is needed. US regulators find it difficult to strike the best balance between encouraging free competitive markets, while protecting the weak against the strong.

However, even if the CEGB earns golden opinions as an operator, its management and planning of capital projects has been much less successful. It has been accused of being slow on its feet commercially, inflexible in its addiction to big conventional power stations and of arrogance towards potential competitors. So could a privatised system achieve the best of both worlds?

The starting point must be the present strange and unwieldy structure of the industry. The CEGB produces power south of the border and runs the grid, while 12 autonomous area boards distribute and sell electricity. The South of Scotland Electricity Board both generates and sells.

The most radical option would be to sell the SSEB and area boards, probably combining some of them and hiving off some or all of the CEGB's power stations to them. A separate, perhaps nationalised, company would run the transmission grid.

An alternative method proposed by Mr Alex Henney in a report for the Centre for Policy Studies would be to retain the 12 area boards as privatised marketing and distribution companies and to split up the CEGB into perhaps 10 private generating companies. A free market would then develop between the supplying utilities and the distribution companies.

The first difficulty is that power stations are situated mainly near coalfields and on the coast, and would not divide neatly between the privatised boards. One answer is simply to accept that some power boards would be exporters of electricity (as the SSEB is now) and others importers. Importers would have the option to build power stations and to experiment with more imaginative schemes of energy conservation. Another possibility would be to give power boards responsibility for power stations in different locations. Though messy, this could be fairer.

The problem of nuclear power is more intractable. The Layfield report on Sizewell B laid much stress on the professional competence of the CEGB, and it therefore seems unlikely that the Government would wish to disperse Britain's nuclear know-how among several competing private companies.

In any case the commercial risks of nuclear power depend so much on political factors, that it might prove unattractive to the private sector—at least until Britain has a track record of building nuclear reactors to time and budget. Certainly in the US, no new nuclear plant has been ordered without cancellation since 1973.

However, if the CEGB remained as a public sector nuclear authority, perhaps controlling 30 per cent of capacity, it would be a difficult bedfellow for private utilities. If its new generation of PWRs turns out to produce cheap electricity, as claimed, the private sector would have little incentive to invest. Even a company which believed the state nuclear programme to be an economic disaster would be uncertain whether to invest in coal plant. This is partly because, however much they cost to build, nuclear reactors are cheap to run. Private competitors may fear, therefore, that government would opt for concealed capital subsidies rather than raising prices.

These uncertainties must be compounded by doubts as to whether government would allow private utilities to operate in an unfettered market environment. Would they, for example, be free to import large turbine generators from abroad, or to import large quantities of cheap coal from, say South Africa, or even from Queensland? And would government stand aloof if, as in the US, a persistent policy of low investment by utilities were to threaten higher prices or even power shortages in the future?

In any offer for sale, such doubts must be compounded by the difficulty that, unlike British Gas, the proposed power boards would be unable to produce an audited track record.

Perhaps these difficulties could be overcome by a combination of careful planning and an attractive selling price. However, the reorganisation would almost certainly take longer than one Parliament.

For this reason alone, the break-up plan seems unlikely to find favour with the Government. The main alternative would be to put all the regional boards and the CEGB together as one giant regulated utility. However, unlike British Gas, it would have a monopoly over production as well as distribution and sales.

Even the monopoly solution might leave uncomfortable doubts about how a private sector CEGB would behave towards the British coal industry, towards nuclear power and towards coal imports. But if it were subject to major restraints on all these issues, why bother to privatise it? All answers, on one side of paper, should be sent to Downing Street as soon as possible.

Men and Matters

Garcia's beguiling songs

President Alan Garcia of Peru was an undoubted hit during his state visit to Mexico last week—but it was not clear whether the cheers were for his debt strategy or his singing.

Garcia, who once scraped a living in Paris as a busker with a mainly Mexican repertoire, suddenly burst into song before the television cameras at a foreign ministry reception. "With or without motive," he crooned to a local mariachi group, "with or without money, I always do what I want, and my word is the law, because I continue to be the king."

That seemed an admirable summary of Garcia's unilateral decision to limit Peru's foreign debt service payments to 10 per cent of its export revenue, and even seemed to incorporate some of the elements of fantasy ascribed to the strategy by his Mexican hosts.

Mexican debt strategists reckon by threatening to default but paying in full, each country can squeeze its creditors for concessions and funds—such as Mexico's recent $7.6bn commercial bank syndication. But Garcia's message still has enormous appeal. Peru's economy grew last year at two and a half times the average in Latin America.

So was he singing a siren's song of debt default? Not a whit disturbed by the speculation, Garcia conducted another impromptu singalong for his fans before he left, telling a TV interviewer that "he who does not sing, does not feel . . . and he who does not feel has no right to presume to liberate anybody."

"When Latin America unites in one great chorus," he thundered promisingly before Mexico's Congress, bringing almost tearful deputies to applaud him with shouts, according to one report, of "Viva Brazil," the other Latin megadebtor which last month declared a moratorium on interest payments after running out of cash.

Bankers need not start trembling yet, however. Mexico's rubber-stamp deputies, the local financial press noted, cheer just as loudly when President Miguel de la Madrid delivers a contrary message to that of Garcia.

"It would cover that damp patch in the hall—probably cheaper than getting the builders in again"

Bull-headed

The world computer industry's new joint venture, the Honeywell Bull group owned by Bull of France, Honeywell of the US and NEC of Japan, has emerged with a French-dominated boardroom — four out of nine directors, with the chairmanship held by Jacques Stern, the Bull chairman.

The balance of directors roughly mirrors the shareholding structure of the group in which Bull's stake will rise by the end of next year to 65.1 per cent. It equally reflects the driving force of Stern, plucked from private industry during the French Government's nationalisation programme in 1982, and a consistent champion since then of France's need for international computer group.

Two other Europeans, Brian Long, chairman of Honeywell of the UK, and Carlo Peretti, head of the group's Italian activities, are also going on to the 10-man management committee. This will be responsible for the day-to-day operations of the business, will be in charge of integrating the new company, and "should create better planning of international strategies," says Long.

Long's husbandry

There is another Brian Long who is also looking forward today to some better figures from his computers. He is the man who took over as managing director two years ago of the once high-flying Cambridge computer company, Acorn.

Long, 43, keeps a model of a combine harvester on his desk—just to remind himself that he still knows less about electronics than about farm equipment. He previously worked for Massey Ferguson in Canada and the US. He came to Acorn in 1985 after it had twice been rescued by Olivetti, which now has a 79 per cent stake.

Long, whose business career followed a childhood in Angola—where his father was a missionary—and a degree in mining engineering, has pruned Acorn's activities and cemented ties with Olivetti. Though, apart from a few Italian prints, there is little sign of Olivetti's influence in Acorn's spartan premises in Cambridge.

Acorn's gradual improvement is expected to be confirmed today with a modest profit on turnover of £50m compared with a £22m loss in 1985. Long says his relative lack of knowledge of computers may have helped him: "I have made decisions based on business logic rather than razzle-dazzle technology."

Panel game

Whatever else may be said about Carlo Ripa de Meana, the European Commissioner whose responsibilities include culture—and something could be said of his view on Saturday that a 30-minute speech is "brief"—he knows how to coin a canny appeal.

At the closing of the Commission's three-day conference in Florence on culture, economics and technology, he came up with just the thing that the Italian, French and British Governments need to do to make 1988 a real whizz for the city of Berlin when it holds the Cultural Capital of Europe tag for the year.

If the divided city cannot be unified, perhaps the Battle of San Romano, as painted in the mid-14th century by Paolo Uccello, can be, he suggested. The three phases of the battle once covered the walls of a ground floor room at the Medici Palace in Florence. In the last century, the Medici—perhaps in need of a penny or two—sold them off separately so that today there is one portion of the battle in the National Gallery, in London, one in the Louvre in Paris and one in the Uffizi in Florence.

In one of those sparse rhetorical flourishes which were denied a full flowering by the need to keep the speech brief, Ripa de Meana urged that "recomposition of that stupendous pictorial complex . . . as a tangible testimony of the common will for reunification of the two Berlins and the two Germanies."

Observer

AT A TIME of rapid international change, diplomacy becomes a bit like Alice in Wonderland, in which the dialogue is very earnest but slightly cracked. The co-ordinates of the international system are shifting about like a ship in a high sea; but since the passengers do not know what the system will look like when it comes to rest—if it comes to rest—they continue to debate, with the greatest seriousness, detailed and practical questions whose significance may be at best metaphorical, at worst anachronistic.

Foreign Affairs

Messages with hidden meanings

By Ian Davidson

This phenomenon became suddenly and startlingly apparent with the mini-summit between Mr Gorbachev and President Reagan at Reykjavik last October; and is likely to be prolonged at the discussions between Mr Gorbachev and Mrs Thatcher in Moscow today.

At Reykjavik, according to the story put about by the two superpower leaders afterwards, they agreed (or almost agreed) to the complete elimination of all ballistic nuclear missiles (US version), or of all strategic nuclear weapons (Soviet version): but in the end their negotiations broke down over Mr Reagan's Star Wars anti-missile defence research programme.

This story is a fairy story; which does not mean that it is untrue, just that its surface meaning is not literally true, while its real meaning or meanings are buried and ambiguous. Naturally, they did talk about the elimination of all those nuclear weapons; but since they could not conceivably have agreed the things which they say they (almost) agreed, their discussion of nuclear weapons must really have been a metaphorical vehicle for some other theme or themes.

The Soviet Union could not conceivably have agreed to the elimination of all ballistic nuclear missiles (US version), because this would have left the US with a substantial superiority in nuclear-armed bombers.

The US could not conceivably have agreed to the elimination of all strategic nuclear weapons (Soviet version), because this would have left the Soviet Union with a vast superiority in shorter-range nuclear weapons with which to dominate the European theatre.

Alternatively, if the superpowers' nuclear renunciation was tacitly contingent on all other countries agreeing to a nuclear-free world and accepting appropriate levels of intrusive inspection, then the "agreement" looks little better than an indulgence in empty hypocrisy.

But since the two most powerful men in the world did not travel to Reykjavik for the purpose of mouthing meaningless words, they must have intended some metaphorical meaning or meanings. Just what those meanings were must remain open to rival and uncertain interpretations.

At the most pedestrian level, Mr Gorbachev was testing the strength of President *Reagan's* commitment to Star Wars. He explored every possible level of nuclear disarmament, up to 100 per cent, and found that there was none which would induce Reagan to put Star Wars on the table. Presumably, this must rule out any agreement to cut strategic nuclear offensive forces, since the two are indissolubly connected. Until Mr Gorbachev changed his mind earlier this year, it also seemed to rule out a Euromissile agreement.

But Gorbachev's proposals at Reykjavik may also have been a political metaphor: even if he did not seriously intend the elimination of all strategic nuclear weapons, perhaps this was a parable for an implied offer of a mutual non-aggression pact, in which the territory of each superpower would be a sanctuary from attack by the other. Such a mutual sanctuary agreement might well suit the security interests of the US and the Soviet Union, but it might be very threatening to the security of Western Europe.

Alternatively, perhaps Mr Gorbachev was making a metaphorical offer of a far-reaching political reconciliation between East and West, an acknowledgement that neither side has any conceivable interest in military aggression and that neither side could possibly benefit from conflict.

Some of these interpretations may be fanciful, overstated or premature. But since the literal accounts we have been given cannot be true, we have to examine alternative versions; since the surface agenda is not the *real* agenda, it is a mistake to be obsessed by it.

Thus with Mrs Thatcher's talks with Mr Gorbachev today. No doubt the conversation will be dominated by talk of missiles; Mrs Thatcher will argue forcefully that the Russians should reduce their short-range nuclear weapons as well as eliminate their intermediate-range missiles, and she will patiently explain why Britain cannot possibly be expected to put Trident on the negotiating table. Mr Gorbachev will no doubt be equally well-armed with contrary arguments.

Yet in reality the central issue at stake is not about arguments, nor even about missiles. The Euromissiles crisis of 1981-1983 was not about a few hundred missile warheads, but about the collision between Leonid Brezhnev's reckless brutalisation of detente, on the one hand, and Ronald Reagan's raucous anti-Communism, on the other. At stake in this tussle was the role and alignment of Western Europe; when the tussle was over, Europe remained aligned with the Nato alliance, but the bipartisan defence consensus in Britain and West Germany had been broken.

In the same way, the essential issue in Mrs Thatcher's talks with Mr Gorbachev today is not a few more missiles here or a few less there, but the political relationship between the Soviet Union and Western Europe and, even more fundamentally, the political relationship between the Soviet Union and Eastern Europe.

Opinions differ why the detente of the 1970s fell apart. American hawks may overstate their case when they claim that it was a simple fraud perpetrated on a gullible western public; on the other hand, it is obviously true that the *political* ingredient in detente was much smaller than the arms control ingredient, certainly on the Soviet side, probably on the American side as well. The record proved conclusively that the Helsinki agreement did not imply a change of Soviet attitudes on, say, human rights.

Today, the contrast is potentially very striking. Not merely is the arms control agenda much more spectacular than in 1969-1972, but for the first time it seems conceivable that there may be just enough of a political counterpart, in the various domestic reforms put forward by Mr Gorbachev, to lend credibility and predictability to a somewhat better East-West relationship.

It is these political factors which will determine the nature and significance of an arms control deal, not the other way round. Mr Gorbachev's predecessors abused human rights, because that was an intrinsic part of the way they wanted to run the politico-economic system. If Mr Gorbachev is starting to ease the human rights problem, it is because that is an intrinsic part of a different way of running the system.

Mrs Thatcher will no doubt say her piece on human rights; but she must be aware, whatever she tells the television cameras afterwards, that her influence here will be absolutely negligible. Privately she should be glad, because an internally generated easing of human rights abuses has a much better chance of sticking.

But the heart of the problem, the central issue which will determine the outlook for arms control in Europe, is the political future of Eastern Europe; this is the question on which Mrs Thatcher is bound to focus most attentively.

The condition of Eastern Europe is, after all, the main symptom of the geopolitical threat posed by the Soviet Union. This post-war expansion of the Soviet empire is synonymous with aggression. This East European empire remains permanently unstable, because the system does not work and the Soviet Union has not acquired and cannot acquire popular legitimacy: as demonstrated in East Germany, Hungary, Czechoslovakia, and in Poland many times.

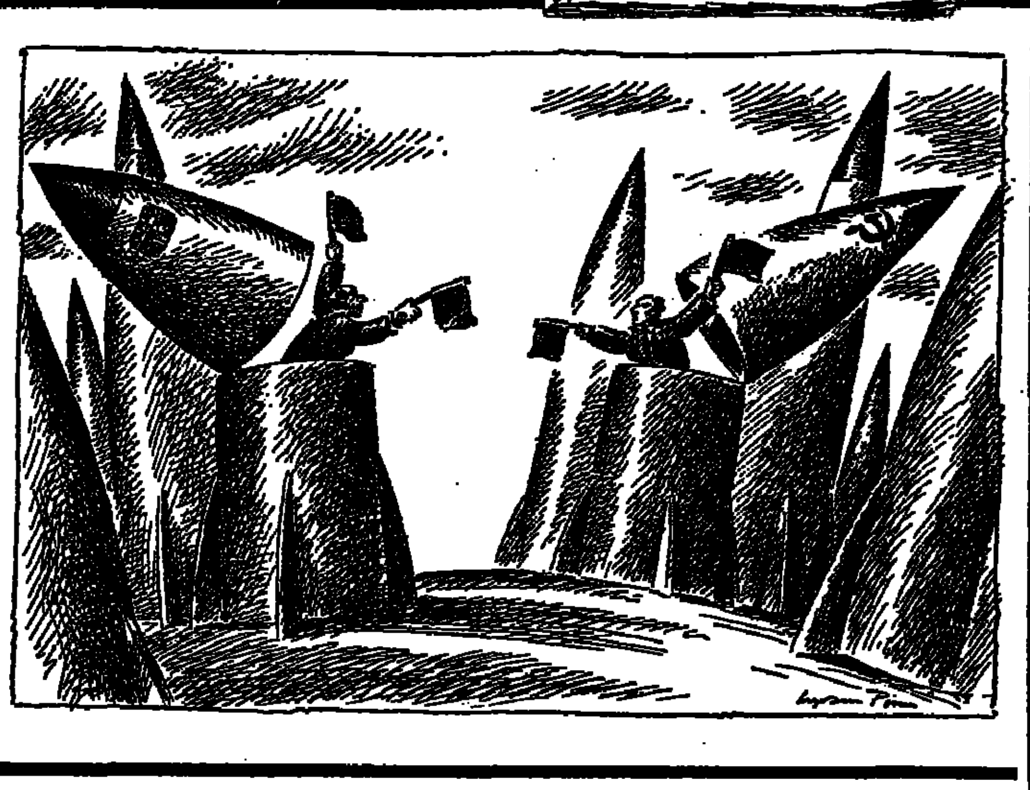
Therefore the Soviet Union has to keep large military forces in Eastern Europe, partly to be able to hold down the satellites. But since these forces significantly outnumber Nato's forces, they have helped propel the nuclearisation of Europe, first in the West, then in the East.

Unless the political dilemma of Eastern Europe is eased, there is not likely to be any Euromissile agreement which will enhance the military security of Western Europe, because Nato will not be able to match Soviet superiority in short-range nuclear weapons and conventional forces. This may mean that the Euromissile talks will fail.

By contrast, the prospects for a Euromissile deal, and the verdict on Mr Gorbachev's underlying attitude towards Western Europe, will become much more favourable if he appears to be making significant progress in replacing military repression with political legitimacy in Eastern Europe.

This will be very difficult. In declaratory terms, Mr Gorbachev has seemed to be urging the same openness and reconstruction on the satellites as he is recommending at home. But the initial reaction from the leadership in Prague and East Berlin was hostile, as one might expect from people whose careers might not survive very much openness.

A serious attempt to restore political legitimacy in Eastern Europe might also be dangerous, because it must increase, even if ever so slightly, the risk of a rejection of the Soviet system, *or* even the rejection of the Soviet Union. That was the sin of the Hungarians in 1956. But unless legitimacy can be enhanced in Eastern Europe, there will be no end to the confrontation. Which is why Mrs Thatcher will be asking Mr Gorbachev at least as much about his forthcoming visit to Prague as about his views on Euromissiles.



Lombard

A Euro-dilemma for Britain

By Quentin Peel in Brussels

WHEN BRITISH negotiators come to Brussels to state their case, or stake their bids, on any area of EEC policy-making, they tend to be regarded with respect by their continental counterparts. The Whitehall machine ensures that their position is normally well-prepared and reasonably coherent. It is often also extremely inflexible.

Last week's debate on the future of co-operation in research and development between the 12 member states—on the proposed Ecu 7.7bn (£5.4bn) five-year "framework programme" put forward by the European Commission—was a classic case. Mr Geoffrey Pattie, the Minister for Information Technology, arrived with a *rigid brief* hammered out between a whole host of Ministries: Ecu 4.2bn, and not an Ecu more. Through most of a day and the whole of a night he refused—was unable—to budge from that brief.

Everyone else made concessions: those inclined to big spending, like Italy and Spain, came down to a new money package of Ecu 5.4bn. The other budget disciplinarians went up: France eventually accepted the compromise, and West Germany got within hailing distance—at Ecu 5.2bn. Not Mr Pattie.

His problem was not so much that he did not like the programme, although it is by no means perfect. The most important parts—the Esprit information technology co-operation, the Race programme in telecommunications, and the Brite projects in industrial technology are well regarded both in Whitehall and by the major private sector participants in the UK.

Rather he was caught between two immovable objects in the public expenditure debate in London: a range of departments including his own Trade and Industry, Energy, Education and Science, Environment and Health and Social Services, all desperate to preserve their own national research programmes and the Treasury, backed by the Cabinet Office, imposing rigid spending rules on anything to do with the EEC.

The British position is hard enough to understand for the rest of the Community: the UK gets a clear net benefit from EEC research spending, unlike practically every other aspect of the Community budget. For every £1 contributed, it gets an estimated £1.23 spent back in Britain.

That, say the Whitehall mandarins, only goes to show how honest their position is. They are not out for the cash, but for value for money.

It is not so simple. The lack of any real machinery in London for central research co-ordination, and hence for deciding on national priorities, means that the co-ordination consists of unstructured haggling between the departments involved. No one wants to concede cash from their budget to something decided in Brussels, even if the EEC programme may actually be a better deal.

Add to that the Treasury attitude to EEC spending. The old mentality remains paramount: that any money going to Brussels is taken straight off the departmental budget for its national programmes; and any money coming from Brussels is similarly deducted, so that it is never actually "*additional*."

The attitude is compounded by the British budget rebate deal agreed, with great fanfare, at Fontainebleau in 1984. That gives the UK roughly two-thirds of its net contribution to the Community back the following year, in the form of reduced payments (somewhat less than two-thirds, but the calculation is complex).

For every pound, or ecu, that Britain pays to Brussels more than it receives, something like 60 pence will come back to the Treasury next year. But if the EEC should conceive of a policy which benefits Britain—like research, for example—then the net contribution will be smaller. An individual British company may benefit from a full £1 spent in Britain, but the Treasury will be 60p worse off. So there is no incentive to sanction any new programme, unless perhaps the benefits are overwhelming.

What benefits does Britain want from the EEC? Some would argue that even if total research spending produces a net return, it still means someone else is deciding research priorities, which may not coincide with the national welfare. But if there is no real co-ordination of a national research strategy, back in London, who can honestly say that is so?

Letters to the Editor

An energy option

From Mr J. Stern and Mr R. Belgrave

Sir,— Your leader, "How to counter Opec's revival" (March 24), starts well but finishes rather limply in its plea for increased acceptance of nuclear power. There is, as you rightly point out, increasing concern in the OECD countries about falling indigenous production and growing dependence on Opec oil, with the United States being the key to the problem. The bullet that both your leader and the Reagan administration's recent study refuse to bite, is that these trends are a direct result of fashionable OECD Government policies of "leaving it to the market" to make decisions. The market is not concerned with energy security, it is concerned with importing the cheapest form of energy at the cheapest price. If this is Opec oil, so be it. If this means another oil price shock in the 1990s, so be it.

As you point out, however, there is no reason why history need necessarily repeat itself. A tripartite study conducted by our programme and institutes in Tokyo and Washington DC suggests a variety of measures appropriate to individual countries. Japan and France have evidently chosen the nuclear option. Elsewhere in Europe, public opposition reinforced by the Chernobyl accident has (despite the British decision to go ahead with Sizewell B) made this option less certain. Across the Atlantic, public opposition combined with an extremely adverse commercial and regulatory environment makes it very difficult to predict when, or indeed whether, a new nuclear power plant will be ordered in the United States.

One way to prevent another major discontinuity in the 1990s might be to establish a price of oil which provides a "floor" for OECD investments in energy. In order to have a chance of being adopted by all OECD countries, such a floor, or "minimum import price," for oil would have to be set fairly low, probably not much above $15 per barrel, and in itself would not guarantee that such investments would go ahead. It would, however, provide some assurance that investments would not be totally undermined and might well concentrate Opec minds on ensuring that the price did not fall below the floor. At the same time, it would not be open to the objections, voiced in your leader, to a fixed tariff.

There are, of course, many short term objections to even this minimal price support, and compelling political reasons for doing nothing, but this would be one way to allay genuine concern that underinvestment in the OECD will undermine energy security in the 1990s.

Jonathan Stern,
Robert Belgrave.
Joint Energy Programme,
10, St James's Square, SW1.

Abolish some tax reliefs

From Mr C. Beattie QC

Sir,—Could the Government in next year's Budget and Parliament in the Finance Act bring themselves to do what is best for the country instead of the things which they think most likely to secure the election to Parliament of party candidates? What is needed is the abolition of all reliefs from tax except those, such as the income tax personal allowances, which are designed to exclude large numbers of small cases from liability. The collection of extra tax through abolition of reliefs would lead to reduction of the standard rates of the various taxes which most people would then suffer.

C. N. Beattie.
24 Old Buildings,
Lincoln's Inn, WC2.

Penalty on the job changer

From Mr W. Beardmore.

Sir,—Mr J. Ferguson (March 24) outlines the disadvantage to job leavers regarding changes in lump sum tax benefits as outlined in the Budget and I endorse his sentiments.

A further important and damaging effect, however, is involved with the change in the basis of arriving at final pension on retirement, with particular reference to leavers.

Under rules prior to March 17 a pension of two-thirds salary paid from all sources, could be obtained provided the person had completed 10 years service in his last pensionable employment and had not retired prior to his normal retirement date. This is now 20 years which means that any person changing jobs with under 20 years to work before normal retirement date cannot under any circumstances, except ill health, obtain two-thirds pension at normal retirement date.

What is the 'agic of the Government in instituting legislation to improve pensions for leavers by 5 per cent per annum on paid up benefits, and of encouraging voluntary contributions to improve pension provisions when it partly nullifies such action with the 20 year rule.

I have never seen any reference in pension articles to the N/NS formula which governs final pension under Occupational Pension Board rules. Following this change I would recommend pension fund administrators and prospective job leavers to examine the implications. Perhaps the Chancellor will also re-examine them too.

W. W. Beardmore.
63 Hazelwood Road,
Duffield, Derby.

Taxation of insurance

From Mr T. Bennett

Sir,—I have been alarmed by the Inland Revenue's attempt (March 19) to alter the basis of taxation of the UK's insurance industry, apparently without Parliamentary approval.

The attack is on two fronts. The Revenue is attempting to bring both historic and prospective income into current taxable profits. This may please a revenue hungry Chancellor in the short term, but the longer term implications just cannot have been considered.

The British insurance industry has followed the normal fundamental accounting concepts of accruals and prudence. Thus income and expense are only taken into profit and loss accounts so far as they relate to the current accounting period; profits are not recognised until they have been realised and full provision is made for all claims as soon as they are notified.

The Revenue is now trying to bring historic revenues into current profit by changing the basis upon which it has allowed companies to defer premium income which does not relate to the current accounting period.

Much more worrying, and crucial to the role of London as a centre of the world's insurance market, is its attempt to force loss reserves discounting on to the insurance industry. Discounting deliberately reduces the provisions to pay claims outstanding by an amount equivalent to the investment income that might be derived in the future from such funds set aside.

Thus British companies, uniquely in Europe, will be forced by the Inland Revenue to pay tax on profits that have been artificially created by deliberate under-reserving. This contrasts starkly with conditions in France, Germany, Sweden or Holland where insurance companies are encouraged to make tax-free transfers to catastrophe claims equalisation reserves to ensure that tax exactions do not prevent a company from having sufficient funds to meet all claims.

This should be seen against the background of notorious uncertainty in making claims provisions, even now companies frequently find themselves inadequately reserved. Discounting would reduce further the reserves held to pay claims (on a liability account by 30 per cent to 40 per cent), and therefore policyholders' security.

I expect two direct consequences. In these days of easy communication and fax machines it is no more difficult to write reinsurance in Amsterdam than it is in Westminster. Onerous taxation will drive risk taking operations out of London, Paris, Amsterdam, Munich and Stockholm will grow further in importance, and income—at London's expense. With that income will go some of the 230,000 jobs that the industry provides. Some companies will be bankrupted by holding inadequate provisions to meet expected claims.

The Chancellor and the Revenue would be better advised to introduce the catastrophe equalisation exemptions common on the Continent.

Tom Bennett.
Rosemary Mount,
Flimwell,
Wadhurst, Sussex.

Capital goods and VAT

From the Head of Information, HM Custom and Excise

Sir,—There appears to be misunderstanding in some quarters over the proposal concerning input VAT on capital goods announced by the Chancellor on December 19. In particular, in his letter (March 11) Mr K. Mackintosh says that VAT input tax on capital goods will be reclaimable over five years. This is not true and I should like to put the record straight for the benefit of other readers who may be worrying unnecessarily.

The proposal is that the deduction of VAT will be made still at the time of purchase but the continued entitlement to deduction would be subject to review annually for the following five years. If, during that time, the proportion of input tax deductible by the business changed, or if the degree to which the asset was used in the making of taxable supplies altered, an adjustment might have to be made.

The proposal has yet to be finalised but is likely to apply only to partly exempt traders—less than 1 per cent of the total VAT trader population. HM Customs and Excise will consult on the proposal before introducing the necessary implementing changes, which will be, in any case, subject to Ministerial and Parliamentary approval.

Graeme Hammond.
King's Beam House,
Mark Lane, EC3.

FINANCIAL TIMES
Monday March 30 1987

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Roderick Oram on Wall Street

Movement rather than direction

US BOND dealers had one major consolation as prices fell suddenly on Friday following central bank intervention to underpin a crumbling dollar. Movement was more important than direction.

At last there was volatility and volume for astute traders to make money again after months in which the largest securities market in the world had become one of the most *placid and least profitable.*

A strange torpidity had settled over the government securities market this year as trading volume dwindled and price volatility faded away to its lowest level in a decade. The US economy's low growth/low inflation rut gave investors little reason to shuffle their bond portfolios.

So solid is the no-change consensus among economists, dealers *have found it* hard to make a compelling case for investors to buy or sell US bonds. One Wall Street dealer expressed disdain for those of his customers tempted into "inefficient markets" for the likes of UK and West German government bonds.

Almost in desperation, dealers have been forced to trade among themselves to an unprecedented degree to keep their trading machines ticking over. But even that has its *limits.*

"With each quiet day, we lose one more trader willing to take a position. He's scared there is not enough volatility for him to trade out of any losses," a dealer said. Analysts believe some signs of damage *might show* up in Wall Street firms' first-quarter results.

Chances are high that last week's flurry will be short-lived. The dollar's bouts of weakness are frequent *but brief and would only have* a more durable impact on the bond market nearer the next Treasury refunding in the middle of May. If a shaky *dollar* discouraged Japanese buyers, bond yield would rise. The bond market needs a marked *change in the domestic economic* outlook, for better or worse, to stimulate trading in a big way. Lacking that, it is likely to fall back into apathy.

The average daily trading volume of US government securities by primary *dealers was only $89.1bn in* the week ended March 18, the latest reported. This represented a 23 per cent fall from the average level last year and a 35 per cent drop from the record week last March at the height of the market's rally. Since then *the number of primary* dealers has risen to 40 from 36, and the Treasury has added some $200bn of paper to the $2,100bn market.

The true level of investor interest has fallen much further. So far this year, Alliance Capital Management *has been trading* less than one quarter the volume of bonds it did last year, said Mr Wayne Lyski, vice president of fixed income securities for the New York-based firm, the world's largest non-bank asset manager.

"We've had to use alarm clocks to remind us to check the prices once an hour."

Last Friday was one of only a handful of days this year when bond prices have *moved more* than a point. In contrast, one day last April saw a 3½ point jump in the Treasury's 30-year bond as investors anticipated a discount rate cut. *The following week* it plummeted six points.

Such volatility must seem like a dream to traders in Chicago's Treasury bond futures pits. Placid markets have given investors and dealers little reason to hedge their bond *positions with futures.* Several days this month, the volume of Chicago Board of Trade bond futures contracts slumped to around 80,000 from a normal level of roughly 230,000 and a record of 387,262 set 18 months ago.

The downturn has heightened fears at the Board of Trade that its arch rival, the Chicago Mercantile Exchange, will overtake it. The Merc's emphasis on innovation, *particularly in the equity area,* has helped its average daily volume to rise from 68 per cent of the Board of Trade's last year to 80 per cent in the first two months of this year.

Traders of bond futures have turned wary, said Mr Chris Hehmeyer, managing partner of Goldenberg and Hehmeyer, at the end of another quiet day in the pits. "Some people are worried about making personal financial commitments."

Although some local speculators have switched to playing stock index futures, Mr Hehmeyer thought it would be a while before the liquidity of the bond futures pits *would be hurt.*

The Chicago futures and New York cash markets showed on Friday that they could spring alive at the slightest stimulus, but the threat of further tranquillity hangs over them. "You get itchy. You worry you've slipped into a semi-comatose state and will miss something," *a bond dealer said.*

"Jeez, I hope it ain't permanent," added another. "I'd have to get another job."

Hugh Carnegy reviews Ireland's economic problems ahead of tomorrow's budget

No easy way out for the Irish

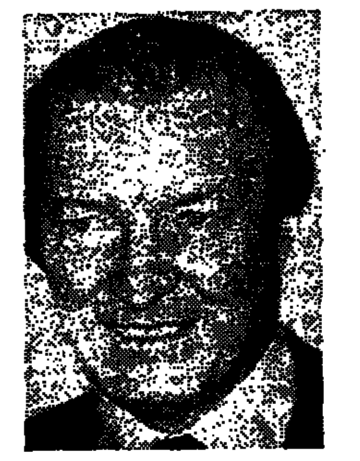
IF THE IRISH had any lingering hopes of an easy way out of their economic troubles, they were abruptly dispelled by a speech ahead of tomorrow's budget by Mr *Charles Haughey, Prime Minister* of the minority Fianna Fail administration elected last month.

"The budget this year will have to be very restrictive," he told his party's national executive on Thursday night. "There will have to be widespread cutbacks and *severe* restrictions right across the board."

Mr Haughey spelled out the "critical state" the economy had reached as current government *spending* exceeded *income* by I£1.4bn ($2.03bn) last year, or 8.5 per cent of gross national product (GNP). "Everything depends on getting government spending into line with government income and reducing that deficit and the borrowing that results from it," he said.

"Unless the rise in borrowing is halted and reversed, and the cost of servicing national debt *is stabilised,* the situation will, within a short period of years, become unmanageable."

The irony is that this message *is* almost identical to that proclaimed during the election by the defeated *Fine Gael Government of Dr Garret* FitzGerald. At that time, Mr



Prime Minister Haughey: economy in "critical state."

Haughey and his party were notably coy about how they would deal with public finances, concentrating instead on the need to generate growth.

The new and old Government alike now agree that spending cuts offer the only real option for restoring balance and curbing the overall national debt of I£24bn (150 per cent of GNP). *Tax rates,* both personal and indirect, are among the highest in Europe and are reckoned to be at the upper limit.

Dr FitzGerald's Government proposed cuts of *I£210m this year, hitting* health and social welfare services hard, to reduce the current budget deficit to I£1.3bn and achieve a small reduction in the public sector borrowing requirement to I£2.3bn. There is speculation *that Mr Haughey's Finance* Minister, Mr Ray MacSharry may go for deeper cuts.

Already, Fianna Fail has impressed Dublin's financial markets by talking of cutting public service numbers, by freezing top civil servants' pay and recouping disputed taxes from the Electricity Supply Board and bacon exporters by prompt action including threats to dismiss the electricity organisation's board.

It is also investigating the cause of heavy unidentified capital outflows on the balance of payments account. These totalled I£1.5bn last year, *alarming markets* and helping to push Irish interest rates to among the highest levels in the European Community.

Although Fianna Fail is in a minority in the Dail (lower house), *it* has few worries about getting a *tough budget approved.* Fine Gael, under its new leader, Mr Alan Dukes, says it will not oppose measures which tackle the debt problem.

The Haughey strategy appears to be to use this consensus to administer the bitter medicine now in the hope that the economy responds quickly enough to give him an electoral advantage *later,* perhaps going for an early election to win the *majority* that eluded him in February.

The question is whether a turnround can come soon enough for him. The Confederation of Irish Industry predicts *growth of 2.2 per* cent this year, nearly twice the 1986 rate. The UK consumer boom and a fall back in the Irish pound's recent very high levels against sterling should encourage better export performance.

Industry would also benefit if a cost-cutting budget helps bring down interest rates.

But some economists doubt whether the growth rates sought by *Fianna Fail can be achieved* in the face of the deflationary effect of the required fiscal measures.

Unemployment, a prime electoral issue with the jobless total approaching *20 per cent of the* workforce, is set to go on rising for some time because of the rate of workforce growth.

Ferruzzi plans flotation to fund latest purchase

BY ALAN FRIEDMAN IN MILAN

ITALY'S Ferruzzi group, which last week agreed to pay $630m to acquire the European corn-starch and glucose operations of CPC International, the US grocery products group, plans to raise around $400m in France in order to help finance the deal.

The Ravenna-based agri-industrial group intends to float on the Paris bourse 49 per cent of European Sugar, its wholly owned French holding company which controls 51 per cent of Béghin-Say, the French sugar concern. European Sugar will include the European operations of CPC, comprising *13 factories* in nine countries and annual revenues of just under $1bn.

At present European Sugar is owned by Eridania, Ferruzzi's Italian sugar producer. The timing of the share issue has not been announced, but it is expected in the next few months.

Eridania, which is separately quoted, at the weekend reported a 91 per cent increase in 1986 net profits to L42.5bn ($32.7m) on flat sales of L767bn.

Mr Raul Gardini, who heads Ferruzzi, is already considering a second-stage financial *operation* in France which could raise a further $200m. Together these would all but offset the $630m purchase price of CPC International's European starch and glucose interests while retaining an ultimate 51 per cent controlling stake.

This second operation would come several months after the Paris flotation of European Sugar. It envisages the sale of up to 49 per cent of CPC Holding, a new vehicle containing the interests purchased *from the US company,* and which in the interim would have under the full ownership of European Sugar.

The two fund-raising operations would leave Eridania with 51 per cent of *European Sugar,* which in turn would own stakes of that size in CPC Holding and in Béghin-Say.

Ferruzzi is understood to have held informal talks about the sale of minority shareholdings in CPC Holding with Mitsubishi of Japan, Südzucker of West Germany and other companies which had sought to acquire the CPC European interests before last week's CPC-Ferruzzi deal.

Panama fleet expands to record

By Kevin Brown, Transport Correspondent, in London

PANAMA'S flag-of-convenience shipping fleet has expanded by 1.2m gross tons since the end of 1986 to a record total of 59.25m gross *tons,* Panamanian authorities will announce today.

The increase reflects an accelerating flight from the registers of the *traditional maritime* countries as shipowners seek to remain competitive in the face of a worldwide over-supply of shipping.

The flags of convenience, led by Liberia and Panama, offer reduced registration costs, together with substantial savings in the cost of labour through the use of Third World crews.

Panama does not publish details of the ownership *of* ships on *its* register, but most of the vessels transferred this year are believed to be owned in Norway and Japan.

Shipowners *in* both countries have been increasingly vocal in complaining about the costs of operating under their national flags.

The Norwegian register declined by 6m gross tons last year, and the Japanese by 1.4m gross tons, according to figures produced by the independent ship classification society *Lloyd's Register.*

These figures exclude ships of less than 100 gross tons, however, while the official Panamanian figures cover all vessels on the register.

The increase in Panamanian tonnage has been achieved against the background of a continuing decline in the size of the world fleet and stiff competition from a number of newer *registers, including Cyprus* and the Isle of Man.

Panama *slashed its* registration fees in September and claims to be the cheapest shipping register in the world despite similar reductions implemented by Liberia.

Panama's Directorate of Maritime and Consular Affairs has also tried to strengthen the appeal of the register by putting greater emphasis *on improving safety standards.*

The Panamanian fleet has one of the worst *safety records* in the world, but officials say a compulsory examination system for officers introduced last year should help to improve standards.

Shipping report, Page 4

Greek-Turkish friction eases

BY DAVID BARCHARD IN ANKARA AND ANDRIANA IERODIACONOU IN ATHENS

THE THREAT of armed clashes between Greece and Turkey in the Aegean Sea over Turkey's claim to be allowed to prospect for oil in the seabed east of the islands of Thassos and Lesbos, receded over the weekend. Tensions eased after Turkey declared it would not prospect outside its territorial waters if Greece did not.

In Athens, the North Aegean Petroleum Company (NAPC) said it had frozen its plans to start drilling east of the island of Thassos by March 28. The Greek Government moved last month to block the original *drilling plans of the NAPC* consortium by tabling a controversial bill allowing the state to acquire a controlling interest in NAPC, and thus avert a possible clash with Turkey.

It was the NAPC's original plans to drill which led the Turkish Government to license the state-owned Turkish Petroleum Corporation to explore for oil in "international waters" around three Greek *islands.*

The Turkish decision to back down – it seemed that last night the Turkish prospecting vessel Sismik 1 was still in Turkish coastal waters and not around the islands of Thassos or Lesbos – coincided with the *return to Turkey of Mr Turgut Ozal,* the Prime Minister. He had been in the US for 55 days for heart surgery.

Neither country therefore looks likely to contravene the so-called Berne Protocol of *1976* under which Greece and Turkey agreed to refrain from any actions such as oil prospecting on the Aegean continental shelf.

The Greek armed forces remained on alert yesterday, but the four US military bases in Greece were operating normally.

The dispute has essentially been frozen rather than resolved, however.

Background, Page 3

Portuguese political crisis looms

BY DIANA SMITH IN LISBON

THE SURVIVAL of Portugal's minority Social Democrat Government now looks uncertain after the Prime Minister Prof Anibal Cavaco Silva said at the weekend that he would not negotiate concessions that might persuade the Socialists, the largest opposition party, to ab*stain from a left-wing* motion of censure scheduled for Friday.

Socialists support for the motion tabled by the former head of state General Antonio Ramaldo Eanes's maverick Democratic Renewal Party (PRD) ensures victory and automatic *downfall of the 17-month-old* Government. The Government holds only 85 of parliament's 250 seats and has no large party to its right to help it send off the left-wing action.

Mr Victor Constancio, the Socialist *leader, who described PRD's motion* as "irresponsible because it offers no constructive alternative," offered not to vote with the left if Prof Cavaco Silva committed himself to a pact with the Socialists that would reduce tension between Government and parliament and permit negotiations of important issues. Such a pact, he hinted, could keep the Government in office until its four-year term expired in 1989.

Prof Cavaco Silva's hard-headed style precludes negotiated concessions. His refusal to yield in 1985 to Socialists with whom his party then shared a coalition Government precipitated the October 1985 snap general election that brought him to power. *Ever since, he has had* abrasive relations with parliament.

His unwillingness to negotiate under threat of a motion of censure paves the ground for yet another Portuguese snap general election – the fourth in eight years.

The PRD's provocation of a crisis when the Portuguese economy and finances were in better shape than they have been for years has dismayed the electorate, 77 per cent of which recently insisted that it did not want early elections, and the business community.

World Weather

		°C	°F
Ajaccio	F	14	57
Algiers	C	14	57
Amsterdam	F	5	41
Athens	F	17	63
Bahrain	R	19	66
Bangkok	S	34	93
Barcelona	F	14	57
Beirut	S	18	64
Belfast	F	5	41
Belgrade	F	16	61
Berlin	C	7	45
Biarritz	C	7	45
Bombay	S	25	77
Bordeaux	C	9	48
Brussels	R	4	39
Budapest	D	10	50
B. Aires	C	28	82
Cairo	F	21	70
Cape Town	S	23	73
Caracas	C	28	82
Casablanca	F	15	59
Chicago	S	12	54
Cologne	F	7	45
Copenhagen	C	4	39
Corfu	F	19	67
Dallas	—	—	—
Dublin	F	7	45

		°C	°F
Dubrovnik	R	12	54
Edinburgh	F	5	41
Faro	S	16	61
Florence	F	15	59
Frankfurt	F	9	48
Funchal	F	17	63
Geneva	C	9	48
Gibraltar	S	16	61
Glasgow	F	6	43
Guernsey	F	6	43
Helsinki	C	4	39
H. Kong	C	22	72
Innsbruck	F	9	48
Inverness	F	4	39
Islamabad	C	27	81
Istanbul	S	19	66
Jakarta	R	30	86
Jersey	F	7	45
Jo'burg	S	24	75
Lima	S	27	81
Lisbon	S	13	55
London	F	7	45
Los Angeles	S	25	77
Luxembourg	F	4	39
Madrid	S	10	50
Majorca	C	10	50
Malaga	S	16	61

		°C	°F
Malta	S	18	64
Manchester	F	5	41
Manila	S	36	97
Melbourne	R	13	55
Mexico City	S	22	72
Miami	C	27	81
Milan	F	13	55
Montreal	—	—	—
Moscow	C	3	37
Munich	C	4	39
Nairobi	S	26	79
Naples	C	11	52
Nassau	C	28	82
New Delhi	F	27	81
New York	R	17	63
Nice	T	13	55
Nicosia	S	18	64
Oporto	F	11	52
Oslo	F	5	41
Paris	F	6	43
Peking	—	—	—
Prague	C	5	41
Reykjavik	C	-6	22

		°C	°F
Rhodes	S	19	66
Rio de Jo	C	33	91
Rome	F	16	61
Salzburg	F	9	48
San Francisco	S	23	73
Seoul	S	14	57
Singapore	T	29	84
Stockholm	Sl	2	36
Strasbourg	F	9	48
Sydney	S	18	64
Taipei	S	24	75
Tangier	S	14	57
Tel Aviv	S	19	66
Tenerife	S	19	66
Tokyo	R	12	54
Toronto	—	—	—
Tunis	C	13	55
Valencia	S	16	61
Venice	F	9	48
Vienna	C	12	54
Warsaw	C	9	48
Washington	—	—	—
Zurich	Sl	2	36

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

UK pressure on US

Continued from Page 1

A draft letter is apparently circulating in the Reagan Administration. It is unclear whether it will be dispatched by the President, who is fearful of embarrassing Mr Nakasone before their talks.

There are *fears in Washington* that a letter – coming on top of the semiconductor dispute – could unnecessarily inflame relations between the two countries and gravely weaken the political position of Mr Nakasone.

Japanese *electronic industry* officials said the import duties would have a large impact on their sales and profits. NEC, Fujitsu and Hitachi, three of the main companies to be affected, all derive about a 10th of their sales from exports to the US. US officials have said the duties would be applied to a wide range of Japanese electronic products from mid-April with the aim of stopping some $300m worth of imports. Japan's total exports of electronic products to the *US* last year were worth $11.2bn.

The Minister of Trade and Industry, Mr Hajime Tamura, said on Saturday that the US retaliation was a most regrettable development.

He said Japan was implementing the pact in good faith. If the US went ahead with its sanctions, "the Government of Japan will take appropriate measures, including those in pursuance of the Gatt."

THE LEX COLUMN

Life and death for the yield gap

Every roulette player longs for a system that will guarantee he can beat the house. Some go to the lengths of amassing statistics in the attempt to discover a reliable pattern und even put their resulting theories to the test – *no doubt* expensively.

They must assume that the game is not simply one of chance but capable of objective analysis and hence predictable. The investment game, one hopes, is more readily susceptible to such methods. There ought to be yardsticks and signposts which if correctly read can bring some science into the business of buying and selling shares.

That thought must have been the motivation behind work done in the 1920s by one C.M. Douglas, an actuary grappling with the question of whether life offices should buy equities.

He pioneered the calculation of market indices and used them not merely to record the history of share price movements, but as the basis for deciding investment policy. Actuaries have been attempting to do the same sort of *thing* ever since, perhaps as relief from their more *gruesome* statistics.

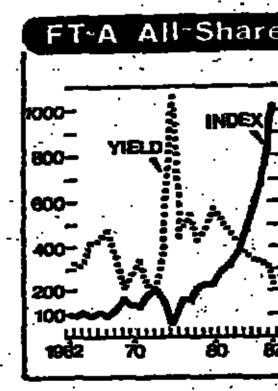
Yet there is no simple textbook system which all fund managers apply when deciding whether or not the market is cheap. Cynics suggest *that such a rule would, like full* investment in index funds or index-linked gilt-edged *stock,* take much of the mystique out of the fund managers' task and their salaries with it.

Anyway those close to the market cannot *often untangle their* emotions from their objective view of values, as any behavourist who has studied fund managers during both bull and bear markets can witness.

The one old *favourite* rule, the gap or ratio between yields on gilts (supposedly *risk free) and equities,* was upset when the relationship turned turtle in the late 1950s. What went wrong was that the market became more confident of continued growth in equity dividends and was therefore ready to accept a lower *current income.*

While the yield gap is still watched by some, few would argue that its predictive power is sufficiently accurate to rely on it alone.

However, another actuary, John Plymen, has come up with a revised version of *the gilt/equity-yield* relationship for which he claims a



strong correlation between its extremes and market peaks and troughs.

His method attempts to remove the problem of forecasting dividend growth by taking the current equity yield *and modifying it to give an* expected equity yield, using future inflation rates (these days implied by gilt-edged yields) as a proxy for equity dividend growth.

That expected yield ought to exceed the return on *gilts.* It has *dropped below that return – in 1969* and 1972 when the equity market peaked – and at the beginning of 1985 exceeded the gilt return by 8.43 percentage points. At present the equity return *is* above the gilt, but not by much.

Aside from the old arguments of whether the past can be used as a guide to the future, there are some drawbacks to the system. Plymen gets round the first, that reported equity yields are historic, by calculating a "real time" yield using the *following year's dividend.*

A second is that the inflation rate implied by gilts yields is itself a function of markets which are not solely concerned with predicting that indicator. Thirdly, can dividend growth be expected to rise in line with *inflation?*

Plymen's statistics *suggest* that they have over many decades although choice of base date, as so often, makes a big difference. Arguably the equity market as a whole reflects the *state of the economy.*

Over a complete economic cycle the rates of inflation and dividend growth are likely to even up. But when inflation is low and the economy expanding, as now, significant real dividend growth will be seen and share prices rise.

When inflation reappears, companies are generally not as capable of improving real earnings, so dividend increases slow. Thus expectations of *dividend growth* should vary according to predicted inflation *rates* and the *components of* Plymen's formula are somewhat interdependent introducing some circularity to the argument.

That does not discredit the method, though, and Plymen also argues that the rate of change of dividend growth is a good leading indicator of the market. With dividends currently growing by perhaps 15 per cent a year, the real time yield on the industrial share index has fallen to *just below 3.5 per cent. As a* 3 per cent yield seems to have provided some sort of barrier to the market, it looks as if the market has not yet reached its peak but may be getting close to it.

Off balance

The concept of financing something off the balance sheet is none the less odd for being so familiar. If the purpose of a balance sheet *is* to display a company's true assets and *liabilities – what else could it be?* – it must follow that arranging for assets (or liabilities) not to appear on the balance sheet will tend to diminish its usefulness. That does indeed seem to be a main point of the various off-balance sheet devices.

If the obscurity-potential of accounting off the balance sheet is to be mitigated by disclosure in footnotes, however incompletely, some of that dubious advantage is given up. But as the Accounting Standards Committee has just said, in *one of its excessively rare blasts of* common sense, no amount of disclosure can compensate for the use of an accounting treatment that is inappropriate.

If the proposed *new standard* ensures, as advertised, that entities *controlled by a company are consol*idated, and that the real commercial effect of transactions is properly accounted for, some well-known companies will have to report rather lower profits and higher gearing than they do.

If the truth is there to be seen – rather than teased out from between the lines – the equity market may, just possibly, adjust a few share prices. Bankers, being more professional have, of course, never been fooled into loading more debt on to a balance sheet than cash flow could sustain.

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday March 30 1987

Selectivity develops in Australian dollar sector

EURODOLLAR BOND dealers, frustrated in their attempts to generate trading profits in a near motionless dollar fixed rate market, might find life more enjoyable at the moment if they switch to dealing Australian dollar bonds, writes **Clare Pearson in London.**

Australian dollar specialists have been seeing an unusual burst of activity recently, as more and more investors, reassured by the firmness of the Australian currency, have been channelling funds into the sector.

The main factor that has been keeping the buyers in the market has been a fall in domestic interest rates in Australia, which has the effect of limiting supply in the Eurobond sector. Last week, domestic Australian dollar Commonwealth bonds shed between 20 and 30 basis points in yield.

This has reduced the availability of swaps – a crucial factor in this sector, where most issues are swap-driven – as swap market spreads have narrowed in relation to Commonwealth bonds in anticipation of further interest rate falls.

This suggests that fewer borrowers will be able to tap the market. It also means that issues launched a few weeks ago, some of which carried 15 per cent coupons compared with coupons nearer 14 per cent on more recent issues, have become easier to sell.

Dealers say that at current levels investors are likely to start resisting issues for all but the rarest and best-liked names. In a market still dominated by retail buyers in West Germany and Belgium, preferences may not relate very closely to credit quality.

For instance, last week, an issue for Walt Disney met an enthusiastic response from the market, but a deal for IBM did not, even though the pricing of the IBM Australia issue did not seem overly tight compared with the terms on which Walt Disney had come.

But although retail investors are still the backbone of Australian dollar buying, others including professionals have been participating in the market recently.

A bond launched a few weeks ago for the World Bank, for instance, "opened new doors for the market," according to one dealer, as it attracted an unusual amount of demand from institutional investors who had not previously bought Australian dollar paper.

The main appeal of the issues is their double digit yields, which look extremely attractive compared with, say, returns available on D-Mark domestic bonds at the moment.

These yields are obtained at the expense of a currency risk, of course, and many investors found their fingers badly burnt when the Australian dollar, and the Eurobond market with it, tumbled last year.

But coupon levels at the moment provide a comfortable cushion against a currency depreciation, and additionally there has been the encouraging factor that the Australian unit has been appreciating against the US dollar. Some have been looking for it to reach the 70 US cent level.

Although most investors prefer fully-couponed issues, some houses last week were seeking to enlarge their sources of demand by bringing zero coupon bonds to the market. These attract some investors chiefly because, since they do not pay coupons, they carry no reinvestment risk. Additionally, there are tax advantages in some countries.

Demand for these types of issues is not reliable, however, as a couple of issuing houses found last week. An issue for Landesbank Rheinland-Pfalz met an indifferent response, even though the name has an appeal for West German retail investors.

But a zero for Nordic Investment Bank fared worse, despite its triple-A rating, as Australian dollar buyers are not accustomed to deals for names from that region.

Hectic buying of West German government bonds by Japanese investors wary of investing in dollar bonds boosted the D-Mark Eurobond market last week. Even though little of it spilled over into Eurobonds, it reassured investors of continuing foreign demand for D-Mark paper.

Prices rose by as much one point as investors moved in to pick up cheap paper. Demand was sustained by an almost complete absence of new deals. This was because issuers were not expecting such a pick-up in the market two weeks ago, when the time came to register new deals with the Bundesbank. A flurry of deals, therefore, is expected soon.

● A number of measures designed to boost Eurobond liquidity, and improve syndication techniques, were passed by the International Primary Market Association (IPMA), the trade association for the Eurobond primary market, at its annual general meeting last Friday.

IPMA is recommending that lead managers of Eurobond issues should register as reporting dealers, as defined by the rules covering the secondary Eurobond market which came into force at the beginning of this year.

The move is designed to reduce worries among investors about the future liquidity of new issues.

Under the secondary market rules, each reporting dealer has to inform the Association of International Bond dealers every evening of its closing bid and offer quotation, and the highest and lowest prices at which it has dealt during the day, in each bond in which it is committed to make markets.

No date for implementation of the IPMA recommendation has yet been set, however. This is because so far many houses have had difficulty putting the systems in place to conform with the AIBD requirements.

IPMA is recommending that the reporting suggestions which initially cover dollar straight bonds – should come into effect from the day following allotment of bonds. Lead managers are expected to remain registered for a minimum of 12 months after a bond has been issued, and co-lead managers for a minimum of six months.

IPMA has no power to impose its recommendation, although deviations must be announced at the time of invitation telexes.

IPMA also agreed on Friday on the implementation of a computer communications system for use during syndication of an issue. This system is based on a telephone link between computers which will carry the details of a new issue which are now contained in an invitation telex.

It is designed to speed up the process of syndication and prevent co-managers becoming confused about the terms of a deal. At the moment, they are generally contacted by telephone, and then sent an invitation telex later.

IPMA membership qualifications have been tightened up, in response to concerns that the rapid expansion of qualifying firms has been placing strains on its consensus approach to decision making.

To qualify, a house now has to have run the books on 12 new issues during the two preceding calendar years. The previous minimum was six new issues.

EUROMARKET TURNOVER
Turnover ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	3,782.8	263.3	430.0	4,421.2
Prev	1,703.8	178.8	60.0	4,740.3
Other	3,283.2	496.7	–	251.6
Prev	3,982.1	157.4	801.5	354.9
Secondary Market				
US$	16,948.7	1,674.5	34,864.3	8,333.5
Prev	16,059.9	1,508.6	19,825.1	5,778.6
Other	23,672.9	704.1	4,867.4	11,938.9
Prev	18,734.8	617.5	4,181.2	7,809.0

	Cedel	Euroclear	Total
US$	15,266.1	53,862.3	68,858.4
Prev	13,879.5	35,773.6	49,653.1
Other	16,206.2	28,968.6	45,194.8
Prev	13,689.8	22,628.6	36,318.4

Week to March 26 1987 *Source: AIBD*

Turner Broadcasting falls deeply into red

BY WILLIAM HALL IN NEW YORK

TURNER BROADCASTING System, the US television group which took over MGM/UA Entertainment last year following an aborted bid to win control of the CBS network, lost $187.3m in 1986 and has warned that it expects large losses for "the forseeable future."

The highly leveraged company, headed by the controversial Mr Ted Turner, lost $85.9m in the final three months of last year compared with net income of $6.2m in the same period of 1985, even though its revenues had nearly doubled to $128.6m.

The full year loss, equivalent to $10.97 per share, compares with net income of $1.2m in 1985.

The figures underline the financial toll that interest charges are taking on Mr Turner's broadcasting empire.

The company took on a heavy debt load to finance its $1.5bn acquisition of MGM/UA and in the final quarter of 1986 Turner's net interest charges of $59.7m were more than double the pre-interest operating profit of $27.4m.

Company officials noted that the 1986 losses were generally as forecast. In addition to the increased interest expense, a non-recurring loss of $26m resulted from the acquisition of MGM/UA and from the 1986 Goodwill Games in Moscow.

Mr Turner said that "with the acquisition and restructuring of the MGM operation behind us, we look forward to aggressively improving our operating results.

"Non-recurrence of the Goodwill Games and reductions in certain other unprofitable sports programming will enable the broadcast segment of our business to significantly improve its operating performance in 1987."

In late January Mr Turner appeared to have resolved the group's financial crisis by agreeing to dilute his majority ownership of Turner Broadcasting in exchange for a $550m capital injection from a consortium of cable TV operators plus Mr Kirk Kerkorian, the former owner of MGM/UA. Turner Broadcasting shares, which have ranged between $12½ and $29¾, closed at $20¼ on Friday.

Mr Turner says that with the pending private placement of equity, the group will be able to "stabilise and strengthen" its capital structure and attempt to reduce its debt service requirements through refinancing.

Agusta back in black with L10bn profit

BY ALAN FRIEDMAN IN MILAN

AGUSTA, the Italian aerospace company which took part in last year's unsuccessful European consortium bid for Westland Helicopters of the UK, has returned to profit for the first time in three years.

The company achieved a L10bn ($7.7m) consolidated net profit for 1986, against a L90bn loss in 1985.

Turnover of L1,001bn was down by L124bn because of the weakness of the US currency against the lira. The earnings recovery comes two years ahead of schedule – originally the company's restructuring plan called for a break-even result in 1987 and a return to the black in 1988.

This follows heavy losses in recent years. The 1984 loss was L144bn, while the 1983 deficit was L175bn.

The turnround at the Agusta group – which consists of 21 operating companies – was helped by trebled profits from Costruzioni Aeronautiche G. Agusta, the main helicopter producing subsidiary. Its profit contribution was L24bn.

EURONOTES AND CREDITS

BP's call for $5bn shows advantage of syndicated loans

BRITISH PETROLEUM'S call last week for international banks to deliver up $5bn of takeover finance in a matter of days showed that, despite its problems, the syndicated loan market can still deliver what other markets cannot, writes **Stephen Fidler in London.**

"No other market in the world could provide $5bn for BP in five days," said Mr James Fuschetti, executive director of Morgan Guaranty, which is arranging the financing, on the day the deal was announced.

The reaction to the financing – which is in effect partly a bridging loan and partly a back-up to a proposed special US commercial paper programme that could reach $2bn to $3bn – seemed generally positive.

Reservations expressed by some of the roughly 60 invited banks were, on the whole, anwered by a fairly generous pricing.

For the four-year revolving credit, BP will pay a ⅛ point margin over London interbank offered rates so that banks get ¼ point if the credit is drawn. There is provision for BP to seek tenders for cash advances.

Given the amount and BP's desire for speed in launching its $7.4bn offer for the 45 per cent of Standard Oil shares it does not already own, BP was probably well advised not to squeeze the margins further, particularly in the absence of any front-end fee.

Takeover finance, particularly in the ravaged oil sector, raises some bankers' eyebrows, and $5bn is no mean amount of debt. Indeed Moody's, the US bond rating agency, immediately placed BP's debt ratings under review for a possible downgrading.

This is unlikely to affect the bank financing, however. If bankers cannot justify joining the deal because of the pricing, they can probably do so in order to cement a relationship with the world's third-largest oil company.

Morgan said on Friday that it was still on target to close the deal by Thursday and for an April 7 signing.

Elsewhere, Chemical Bank launched a $150m note issuance facility for Certainteed, the US-based building products company which is 57 per cent owned by Saint-Gobain, the newly privatised French glass and materials group.

The five-year financing, which will back up a commercial paper programme, carries a facility fee of 10 basis points, and a similar margin. Utilisation fees range up to 10 basis points, and there is a front-end fee of 10 basis points for a $15m take.

Union Electric, a Missouri-based electric and gas utility, is setting up a $150m term loan facility to be arranged through Swiss Bank Corp International.

It has a maturity of four years and a margin of 0.2 point over Libor. The borrower may convert amounts it prepays into a revolving credit with an annual commitment fee of 12.5 basis points.

In the commercial paper market, County NatWest was mandated by Rowntree Mackintosh, the UK food and confectionery company, to arrange a £200m, five-year multiple option facility and a separate £200m commercial paper programme.

Some £150m of the option facility is committed. It carries a five basis point underwriting fee, a 10 basis point margin on underwritings, and utilisation fees of up to 2.5 basis points.

● Salomon, a French manufacturer of skiing gear, said it had launched, subject to French official approval, a $75m commercial paper programme to be backstopped by a syndicated revolving credit of the same size.

Morgan Guaranty is arranging the credit and will be joined by Credit Suisse First Boston as dealer on the paper programme.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Sentiment dominated by sterling and opinion polls

THE BRITISH Government bond market was last week dominated by two influences—*sterling and political opinion* polls.

After the dip below 9 per cent yields, there had been a prevalent school of thought that *further progress would depend* on an improvement in the government's standing in the polls and hardening evidence that Mrs Margaret Thatcher would be able to go to the country in June and win.

The other crucial factor was the continuing stability of sterling on the foreign exchange market which would keep overseas investors happy to continue building up their holdings of gilt-edged stock. One of the reasons behind sterling's strong performance since the Paris accord in late February had been the stability —if not nerves-induced stagnation—of the major currencies focused on in that agreement.

The argument goes that, if a foreign exchange dealer's hands are tied on trading the dollar, the Japanese yen and the D-Mark, because of the fear that central banks will intervene against the speculative flow of the market, it is best to trade in high-yielding currencies such as sterling and the Australian dollar.

This is indeed what had happened until last week. But *then a combination of* fears about increasing trade friction between the US and Japan and the usual flows associated with the Japanese year-end triggered *the first real test of the* Paris accord. Central banks, as threatened, did indeed intervene. The cumulative effect of all that activity was to leave *the yen at a post-war high* against the dollar and there could be more volatility to come.

In the midst of this, sterling has lost some of its impregnability. It remains fairly firm but the last thing foreign investors want is any sign of increased volatility.

Widespread leaking late on Wednesday of the Today newspaper's opinion poll thoroughly undermined gilts and sterling. Both were then bolstered by February's much better than expected balance of payments figures, which were *not helped by any of the* change of mind on invisibles which we have become accustomed to, but boosted by, a genuinely good export performance.

The good effect of the trade figures was then more than wiped out by the rumours which started circulating that a poll due to be published in the Daily Telegraph on Friday was to confirm the Today poll evidence of a surge in support for the Liberal/Social Democratic Alliance. It did.

It seems likely that opinion polls will continue to dominate sentiment in the gilt market.

The return to yields above 9 per cent at the long-dated end means there is now a political risk premium again and this may have to get bigger to attract demand.

The good run by the index-linked sector was another sign that the market's supreme confidence in the government's *electoral prospects* had crumbled somewhat. The Bank of England's issue on Friday *of £250m* of long-dated index-linked stock looked as though it was *tailored to specific* demand and should find buyers.

The big risk for the market is that foreign investors might lose their nerve and sell their substantial holdings of gilts before or around the calls on some of those issues in April and May which amount to £1.9bn.

However, *it* appeared last week that foreigners, particularly the Japanese, were still buying gilts, although not in large amounts.

It may be that Japanese fund managers are understandably not as attuned to shifts in political mood as their British counterparts are. But it is also *likely that they will be looking* at the gilt market in a more long-term strategic light.

The fortunes not only of gilts, but crucially of the US Treasury bond market, may rest to a large extent on the portfolio decisions made in Japan next week at the start of the new fiscal year.

Janet Bush

US MONEY AND CREDIT

Bond market shaken from slumber

THE US BOND market was shaken out of its recent long slumber late last week by alarm bells in the international arena signalling renewed tensions in the foreign exchange markets and on the international trade front.

In the foreign exchange markets the US dollar fell to a 35-year low against the Japanese currency of Y147.15, despite substantial intervention by major central banks, raising concerns *that US interest rates* may have to rise to bolster the value of the dollar.

Meanwhile, the news that President Ronald Reagan was imposing *sweeping trade* sanctions on Japan, in retaliation for the alleged dumping of computer chips, raised worries in some quarters that the Japanese might *retailiate by being less* aggressive buyers of US government securities.

The US Treasury's "mini refunding" of two, four and seven-year notes went reasonably well but by the end of the week investors at the auctions were showing sizeable losses after US bond prices *slumped on Friday by more* than a point, pushing the closely watched US government long bond yield up to 7.65 per cent.

US interest rates have floated up to their highest levels of 1987 and, while last week's movements hears no comparison with earlier volatile periods, it *is a reminder* than an extension of the recent stability in the US financial markets cannot be taken for granted.

Mr Paul Volcker, chairman of *the Federal Reserve, whose* comments are often so opaque that they could mean just about anything, is reported to have told a group of financial analysts *in* Washington last week that "enough is enough" as far as the dollar's recent decline is concerned.

But, despite such an unusually *forthright statement, the credit* markets were unsettled by the apparent futility of the central bank efforts to stabilise the dollar. Mr Scott Pardee, vice *chairman of Yamaichi* International (America) and a former head of the New York Fed's foreign exchange operations, was particularly critical *of the Fed's intervention.*

"The operation conducted this week did not instill fear in the markets, because it has been too predictable. The market is convinced the US Government wants the dollar lower, and many people are short dollars," he told the New York Times.

Despite the worries about the dollar, there was continued good demand for several new corporate issues last week which enabled Coco-Cola Enterprises to increase the size of its offerings by $100m to $500m and Unocal to increase the amount raised by its two note issues from $300m to $450m.

The 10-year note issue was priced to yield 8.834 per cent, or 160 basis points above the comparable US Treasury issue, and its seven-year issue was priced at par to yield 8.5 per cent, or a 145 basis points spread above comparable US treasuries.

Coca-Cola Enterprises' two issues, both rated A2 by Moody's and AA minus by Standard & Poor's, were split between a 10-year note issue, which was priced to yield 7.926, and a 30-year debenture *priced to yield* 8.807 per cent, or 115 basis points over the comparable US Treasury issue.

Coca-Cola Enterprises, the world's biggest *bottler of soft* drinks, is a relative newcomer to the corporate debt markets. Coca-Cola spun off a 51 per cent interest last year but the continuing links with *its famous* parent, which retains a 49 per cent stake, probably explain its ability to raise finance on good terms. By contrast, another new face in the debt markets, Seven-Up, which was sold by Philip Morris late last year, issued 10-year senior subordinated notes on a yield of 12.125 per cent.

Among other corporate debt issues last week, a $100m five-year note issue (rated A3 by Moody's) for Hertz was priced to yield 8.06 per cent, or 102 basis points over US Treasuries, whilst Smith Barney reports that a $250m 30-year debenture for Time "sold very well." The issue, rated AA3 by Moody's, yielded 8.84 per cent, or 115 basis points above the comparable US Government paper.

The following economic statistics are due to be released this week, listed along with the market's median expectations as surveyed on Friday by Money Market Services of Redwood City, California.

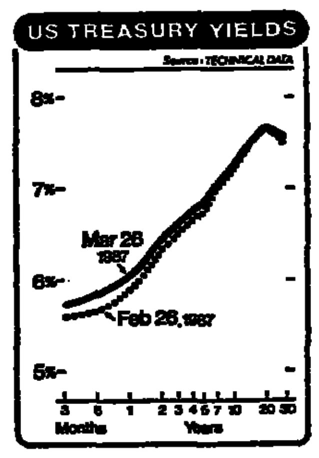
● The Index of Leading Indicators for February (due Tuesday 8.30 am EST) is expected to have rebounded after January's surprisingly steep 1 per cent decline. The median forecast is for a 0.6 per cent rise with estimates ranging from plus 0.1 per cent to plus 1 per cent.

● The weekly money supply figures (due Thursday 4.30 pm EST) are expected to show a $1bn increase in M1 with estimates ranging from a drop of *$2.1bn to an increase of* $2.5bn.

● The March employment data (Friday 8.30 am EST) is expected to continue to portray an economy that is expanding moderately. The civilian unemploymen t rate *is forecast to* remain unchanged at 6.7 per cent, its average for the past three months, as increases in the labour force are expected to have matched employment gains. Estimates range from an unemployment rate of 6.6 per cent to 6.8 per cent. Non-farm payroll employment *is forecast* to have risen by 225,000 which is somewhat below the strong gains in January and February. Estimates range from an increase of 175,000 to an increase of 300,000.

● The Federal Open Market Committee (FOMC) meets on Tuesday and Wednesday to chart monetary policy for the coming weeks. The minutes of the February FOMC meeting will be released on *Friday* at 4.30 pm EST.

William Hall



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.20	6.08	5.99	11.34	5.71
Three-month Treasury bills	5.63	5.52	5.44	6.52	5.07
Six-month Treasury bills	5.66	5.58	5.45	6.54	5.06
Three-month prime CDs	6.24	6.18	6.15	7.20	5.48
30-day Commercial Paper	6.30	6.20	6.08	7.70	5.88
90-day Commercial Paper	6.23	6.15	6.00	7.10	5.46

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	99⅝	− ½	7.16	7.02	6.97
20-year Treasury	115⅜	− 1½	7.77	7.64	7.62
30-year Treasury	98¾	− 1½	7.65	7.53	7.47
New 10-year "A" Financial	N/A	− 1	8.15	8.00	8.00
New "AA" Long utility	N/A	− 2⅜	8.80	8.60	8.70
New "AA" Long Industrial	N/A	− 1⅜	8.65	8.50	8.56

Source: Salomon Bros (*estimates*).

Money Supply: In the week ended March 16 M1 rose by $1.2bn to $740.2bn.

NRI TOKYO BOND INDEX

December 1983 = 100	26/3/87	Average yield (%)	Performance index: Last week	12 wks ago	26 wks ago
Overall	138.05	4.13	138.65	132.08	128.45
Government Bonds	138.51	3.73	139.46	132.96	129.28
Municipal Bonds	138.44	4.64	138.81	132.38	128.41
Government-guaranteed Bonds	139.47	4.68	139.84	133.11	128.96
Bank Debentures	132.81	3.82	132.52	128.45	125.27
Corporate Bonds	136.36	5.13	136.33	130.62	127.57
Yen-denominated Foreing Bonds	137.15	6.18	136.83	133.09	129.48
Government 10-year†	—	4.83	4.83	5.37	5.51

† Estimated par yield.

Source: *Nomura Research Institute.*

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN Bank 8½ 91	150	103	−0⅛	7.62
Aetna Life & Cas 7⅛ 16	200	100	−0⅛	7.75
AHFC O/S Fin 11¾ 94	100	103	0	11.09
AIDC 11 89	75	106½	−0⅛	7.88
Alcoa Australia 11 92	80	106¾	+0⅛	9.44
American Expa 12⅝ 88	150	107⅜	−0⅛	7.12
Asian Dev Bk 11¾ 93	100	115¼	−0⅛	8.59
Australia 11¾ 90	100	110⅝	−0⅛	7.77
Australia 11⅜ 00	100	117½	−0⅛	8.92
Austria Zero 95	100	51⅛	0	8.34
Bank of Montrl 14½ 87	100	100⅝	−0⅛	8.17
Bank of Tokyo 8¾ 96	100	101⅞	−0⅛	8.08
Bank of Tokyo 11 90	125	110	−0⅛	7.19
Bank of Tokyo 11⅞ 90	100	113⅞	−0⅛	7.43
Bank of Tokyo 13⅞ 88	100	114⅝	−0⅛	7.09
Barclays Jersey 10⅛ 90	250	108	−0⅛	7.35
Barclays Jersey 10⅝ 95	250	114¾	0	8.18
Belgium 7½ 91	250	100	0	7.49
Belgium 7¾ 91	300	101⅛	+0⅛	7.43
Betawest Prop 7¾ 93	150	99⅝	−0⅛	7.77
BFCE 7⅝ 93	150	97½	−0⅛	7.76
Bk Nova Scotia 13⅞ 87	100	101½	−0⅛	8.02
BNP 8¾ 93	125	103⅝	−0⅛	8.07
BNP 13½ 89	150	113⅞	−0⅛	7.24
BP Capital 8⅝ 93	150	107½	0	7.96
BP Capital 11½ 92	150	110¾	−0⅛	8.44
Br Col Hydro 10¾ 88	200	103	−0⅛	6.91
Br Col Hydro 11⅞ 93	200	118½	0	7.81
Campbell Soup 10½ 95	100	112⅛	−0⅛	8.32
Canada 10⅞ 88	500	105⅞	−0⅛	6.87
Canada 11½ 90	500	111⅛	−0⅛	7.06
Canadn Imp Bk 16⅝ 91	100	114⅝	−0½	12.43
Can Natnl Rail 14¾ 91	100	112⅛	−0⅛	11.02
Canadian Pacific 7½ 96	100	95⅛	−0⅛	8.18
Canadian Pacific 10⅜ 93	100	108⅝	−0⅛	8.81
Can Pacific Secs 15 89	75	115	−0⅛	7.76
Canadian Wheat 11¾ 90	50	103	−0⅛	10.17
CCCE 7⅝ 91	113	99	−0⅛	7.38
Centrust S&L 0 10	1.2bn	12	+0⅛	9.72
Chevron USA 12⅝ 89	600	102⅝	−0⅛	10.90
Citicorp 11⅜ 92	100	106¾	0	9.89
Colgate-Palmolive 8¾ 96	100	107⅛	−0⅛	8.27
Com Bk Australia 10 93	100	107⅜	−0⅛	7.87
Com Bk Austrlia 12¾ 89	100	111⅞	−0⅛	7.18
Continental Grp 11⅜ 93	75	103⅜	+0⅛	10.78
Crocker National 10½ 88	75	102⅜	−0⅛	7.67
Dart Kraft A 10⅜ 98 SW	100	107⅛	+0⅛	8.96
Denmark 0 98	250	37⅞	−0⅛	8.93
Denmark 7 88	1.0bn	100	0	6.96
Denmark 10⅞ 90	100	103⅛	−0⅛	9.58
Denmark 11½ 92	100	115⅛	−0⅛	7.78
Denmark 13 92 XW	100	101	0	12.67
Denmark 13¾ 91	100	121	−0⅛	7.64
Deutsche Bk Fin 13¾ 89	200	113⅛	−0⅛	7.27
OKB Asia 8⅝ 91	100	102⅝	−0⅛	7.53
Dutch St Mines 11⅜ 91	150	104⅝	+0⅛	9.87
ECSC 7 88	75	100⅝	0	6.71
ECSC 8⅞ 96	100	101⅛	−0⅛	8.00
EDF 10⅝ 95 A	100	108⅞	−0⅛	8.89
EEC 9⅝ 90	380	104⅝	−0⅛	7.88
EIB 7¾ 93	150	100⅛	0	7.71
EIB 8½ 88	100	100⅝	−0⅛	7.49
EIB 8¾ 88	50	100⅝	−0⅛	8.16
EIB 8¾ 93	100	101½	0	8.41
EIB 9⅛ 93	100	101⅛	−0⅛	8.86
EIB 10⅝ 94	200	112⅛	0	8.06
EIB 11 91	125	112⅞	−0⅛	7.15
EIB 11⅛ 91	73	111⅛	0	8.05
Ekaportfinans 0 94	360	55	−0⅛	8.26
Elec de Fr 14⅛ 89 XW	200	113⅝	−0⅛	6.97
Eli Lilly 10⅛ 90	150	112⅛	0	7.38
Emerson Elec 9⅝ 95 SW	100	107½	+0⅛	8.37
ENEL 10 95	400	105	−0⅛	9.31
Engelhard Corpn 11⅜ 92	100	108⅝	0	9.39
Eurofima 9⅝ 96	100	107⅝	−0⅛	8.02
Eurofima 12½ 89	75	111⅞	0	7.19
Export Devel 9⅞ 88	200	102⅝	−0⅛	7.42
Export Dev Corp 10 90	100	108	−0⅛	7.14
Export Devel 10⅛ 88	100	102⅞	−0⅛	6.92
Export Devel 11⅜ 88	150	107½	−0⅛	6.93
Export Devel 12 89	100	111⅛	−0⅛	7.01
Farm Credit Corp 7½ 93	100	99	−0⅛	7.70
Finland 12⅛ 94	75	124⅝	−0⅛	7.80
Ford Motor 10½ 93	150	109⅝	0	8.45
Forsmarks 8⅞ 91	100	104⅛	−0½	7.41
Fuji Bk & Tst 7⅝ 91	100	100⅞	−0½	7.57
Fuji Intl 10⅞ 90	100	110	0	7.18
Gaz de France 12⅜ 93	175	117⅝	−0⅛	9.41
Gen Elec Cred 9⅜ 91	100	104	−0⅛	8.57
Gen Elec Cred 10⅝ 90	200	105½	0	9.81
Gen Elec Cred 12 94	200	114⅛	+0⅛	9.22
Getty Oil 14 89	125	99⅝	−0⅛	14.08
GMAC 10 88	200	102⅝	0	7.02
GMAC 10 92	250	107⅛	−0⅛	8.28
Gram Finance 13⅜ 89	100	107⅛	0	9.70
Gulf Canada 14¾ 92	100	113⅝	0	11.06
GZB 14 91	100	120⅛	+0⅛	8.13
Hiram Walker 16 88	75	114⅛	−0⅛	7.74
Holl Air Fin 12⅜ 91	100	105½	0	10.52
IBM 9⅛ 88	200	102⅛	−0⅛	6.99
IBM Credit 10⅛ 89	300	103⅛	−0⅛	8.29
IBM Wrld Trade 12⅜ 92	200	112½	−0⅛	9.21
IC Industries 12 90	75	108½	0	8.73
Inco 9 92	100	98⅞	0	9.24
Ind Bk Japan 10⅜ 92	100	109½	−0½	8.25
Ind Bk Japan Fin 8 93	150	101⅛	0	7.75
Int-Amer Dev 12⅝ 91	150	119⅛	−0⅛	7.58
Int Paper 12 91	75	104⅞	0	10.43
IPF 12½ 92	100	109½	+0⅛	10.00
Italy 8¾ 91	220	104⅛	0	7.41
Italy 9⅛ 96	150	106⅞	−0⅛	8.06
ITT Credit Corp 10½ 90	75	106⅛	+0⅛	8.09
Japan Air Lines 8⅞ 96	150	99¾	−0⅛	8.16
Japan Dev Bk 10 92	100	107⅛	+0⅛	8.20
Kellogg Co 10⅞ 90	100	106½	−0⅛	8.15
Liberty Mtuel 8½ 96	150	102⅛	0	8.10
Lockheed Corpn 7⅞ 89	150	100⅛	−0⅛	7.18
Long Term Cred 10⅜ 90	100	109½	−0⅛	7.27
Long Term Cred 11 90	100	109⅝	−0⅛	7.21
Long Term Cred 11⅞ 89	100	108½	−0⅛	7.19
Manitoba 7½ 96	150	96⅛	−0⅛	8.11
Manitoba 8¾ 91	125	104⅛	−0⅛	7.40
Manitoba 13⅞ 89	100	114⅛	−0⅛	7.28
Marks & Spencer 8⅛ 96	150	101⅛	−0⅛	8.04
Marubeni 11⅞ 91	100	111⅞	−0⅛	8.22
Mercedes Credit 7⅛ 93	100	98⅝	0	7.48
Mercedes Credit 7⅞ 93	100	101⅛	−0⅛	7.27
Merrill Lynch 8 93	200	100⅛	−0⅛	7.94
Merrill Lynch 9 89	200	103⅛	−0⅛	7.13
Mer Lynch O/S 10⅝ 90	200	108	−0⅛	7.60
Mitsubishi Cp 10⅛ 92	100	108½	0	8.32
Mitsubishi Est 10⅝ 92	50	108⅛	−0⅛	8.44
Mitsbshi Fin HK 11⅜ 90	100	111½	0	7.25
Mitsbshi Fin HK 12⅜ 91	100	113⅞	−2⅜	8.80
Mitsui Tst Fin 12 91	100	112⅛	−0⅛	8.11
Mobil Corp 10⅝ 90	200	108⅞	+0⅛	7.72
Morgan Gty Tst 12⅞ 89	150	111⅝	0	7.13
Morgan J P 11⅛ 92	100	108⅛	0	9.11
Motorola 12 94	75	117⅛	−0⅛	8.83
Mount Isa Fin 13⅜ 87	100	101½	−0⅛	7.89
Nat West Fin 11⅜ 92	150	117⅞	0	7.68
Ned Gasunie 11⅛ 90	75	111	+0⅛	7.58
New Zealand 7⅛ 89	300	100⅛	−0⅛	7.14
New Zealand 7½ 91	200	99⅞	−0⅛	7.51
New Zealand 7⅝ 91	250	100	−0⅛	7.61
New Zealand 8 93	100	100⅛	−0⅛	7.85
New Zealand 8⅛ 93	150	102	−0⅛	7.83
New Zealand 10⅛ 95	200	110½	0	8.43
Nippon Cred Bk 13⅞ 89	100	113⅝	−0⅛	7.17
Nippon Tel & Tel 7½ 94	150	99⅛	−0⅛	7.61
Nisho Iwai 10⅝ 92	100	110	−0⅛	8.23
Nova Scotia 11⅜ 91	100	104⅛	+0⅛	10.30
NSW Treasury 11⅜ 90	150	111½	−0⅛	7.42
Olympia & York 8⅛ 96	435	98⅞	−0⅛	8.41
Ontario Hydro 10⅛ 90	250	108½	−0⅛	7.12
Ontario Hydro 11⅜ 89	200	110⅛	−0⅛	7.00
Ontario Hydro 11⅛ 94	200	119⅞	−0⅛	7.78
Ontario Hydro 11⅜ 90	200	113⅝	−0⅛	7.20
Ontario Hydro 13½ 91	100	120⅛	−0⅛	7.40
Ontario Hydro 14⅛ 89	150	114⅛	−0⅛	7.10
Ontario Hydro 15 92	150	131⅛	+0⅛	7.86
Pacific Gas & El 12 00	75	118⅞	−0⅛	9.39
Penney J C 11⅞ 90	100	103	0	10.74
Penney J C 12⅜ 91	100	111⅛	+0⅛	9.38
Pepsico Capital 8⅝ 91	100	103⅝	+0⅛	7.39
Petro-Canada 7⅜ 96	200	84⅞	−0⅛	8.05
Philip Morris 8⅝ 88	200	109⅛	0	8.49
Post Och Kred 13½ 87	50	101⅛	−0⅛	7.84
Postpankki 11⅛ 90	75	109	0	7.62
Proctor & Gam 10 95	150	110⅞	−0⅛	8.13
Pru Rlty Secs 0 99	365	38⅞	−0⅛	8.82
Qantas Airways 8⅝ 96	97	103	−0⅛	8.14
Quebec Hydro 10 89	75	102⅝	0	8.62
Quebec Prov 13 90	150	115⅛	−0⅛	7.97
Queensld Gvt 11⅜ 89	100	108⅝	−0⅛	7.23
Ralston Purina 11⅜ 95	150	116⅛	+0½	8.83
Reynolds R. J. 10⅛ 93	100	111	−0⅛	7.49
Rockwell Int 8⅝ 90	200	107⅛	−0⅛	7.29
Saskatchewan 7 91	125	100⅛	0	7.41
Saskatchewan 8½ 91	150	103½	−0⅛	7.44
Saskatchewan 11⅞ 89	100	110⅛	0	7.22
Saskatchewan 15 92	150	130½	+0⅛	7.81
SAS 10⅛ 95	150	110⅛	−0⅛	8.40
Scot Intl Fin 10⅝ 90	50	107⅛	−0⅛	7.82
Sears O/S Fin 0 98	600	38	−0⅛	8.95
Sears OSS Fin 11⅛ 93	150	118½	−0⅛	7.70
Sears Roebuck 10⅛ 91	150	104⅝	0	9.08
Sec Pacific 10½ 88	100	103⅛	−0⅛	7.19
Shell (Canada) 14⅛ 92	125	113⅛	0	10.81
Shell Oil 8⅝ 90	250	106⅛	0	7.50
Standard Oil 10½ 89	150	102⅛	+0⅛	9.05
St Bk Sth Aust 9⅝ 93	100	106	−0⅛	7.92
State Elec Vict 10 92	100	109½	−0⅛	7.84
Sth Aus Gov Fin 8⅝ 93	100	103⅝	−0⅛	7.96
Sumitomo Fin 11⅜ 92	150	116⅞	−0⅛	7.55
Sweden 8⅞ 94	150	102½	0	7.65
Sweden 10⅜ 92	250	112⅛	−0⅛	7.48
Swedish Exp Crd 9⅜ 93	100	105½	−0⅛	8.71
Swedish Export 11½ 89	100	107⅛	−0⅛	6.99
Taiyo Kobe 11⅞ 90	100	111½	−0⅛	7.57
Taiyo Kobe 12 90	100	114⅛	+0⅛	7.44
Tenneco Corp 11½ 89	150	105⅛	+0⅛	8.23
Texaco Capital 13⅞ 88	200	103⅛	+0⅛	11.75
Texas Inst 11⅜ 91	150	107½	0	9.51
Tokai Asia 11½ 95	100	119⅛	−0⅛	8.16
Tokyo Metro 8⅝ 96	200	101½	−0½	8.00
UBS 12⅝ 91	100	107⅛	+0⅛	10.02
Unilever Cap Co 9⅞ 92	150	110⅛	−0⅛	7.47
Vict PBC Auth 8⅝ 96	100	101⅝	−0⅛	8.19
Warner-Lambert 8⅝ 95	100	101⅝	+0⅛	7.95
Wells Fargo 13⅜ 91	100	115⅝	+0⅛	8.22
Weyerhaeuser 11½ 90	60	103⅞	0	10.37
World Bank 7 92	300	99⅛	0	7.17
World Bank 11⅜ 90	200	113	−0⅛	6.80
World Bank 11⅜ 89	200	107½	−0⅛	6.89
World Bank 11½ 90	150	113⅛	−0⅛	6.85

FLOATING RATE NOTES	Issued	Bid price	Chg. on week	C.cpn
Alaska Housing 1/10 01	125	99⅝	0	6⅛
Alberta Province ⅛ 93	500	99⅝	0	3
Alliance & Leics 0.08 94	300	99	−0⅛	11⅞
Allied Irish ⅛ 95	100	99⅞	+0⅛	6⅝
Amer S & L 0.15 96	200	99⅛	−0⅛	6⅝
Banco di Sicilia ⅛ 92	100	99⅛	−0⅛	6⅝
Bank of Boston ⅛ 2000	200	99⅛	+0⅛	6⅝
Bk of Montreal ⅛ 96	250	99⅛	0	6⅝
Bankers Tr NY ⅛ 94	200	100	0	6⅝
Ban Indosuz ⅛ 91 XW £	85	100⅛	0	11½
Barclays O/S Inv ⅛ 04	350	99⅛	−0⅛	5⅞
BBL Intl 93	100	99⅛	0	6⅛
Belgium ⅛ 94 £	100	100⅛	0	11⅛
Belgium ⅛ 97	560	100⅛	+0⅛	4⅞
Belgium 00	400	99⅛	−0⅛	6⅛
Belgium ⅛ 04	400	99⅛	−0⅛	6⅛
Belgium 05	400	99⅛	−0⅛	6⅛
Bilbao Intl 0.035 01	150	99⅛	0	6⅛
BNP 05	300	97⅛	+0⅛	6⅛
CCCE ⅛ 98	50	99½	−0⅛	6⅛
CCF 97	250	97⅛	+0⅛	6⅛
Central Intl 1/10 00	150	99⅛	0	6⅛
Centrust 0.15 96	100	99⅛	0	6⅛
CEPME ⅛ 98 £	100	100	0	9⅞
Chase Manhattan ⅛ 93	150	99⅛	0	6⅛
Chase Manhattan ⅛ 09	400	98⅛	+0⅛	6⅛
Chemical NY ⅛ 97	250	98⅛	−0⅛	6⅛
Citicorp O/S ⅛ 94	100	100	0	6⅛
Citizens Fed 0.15 98	100	99⅛	0	5⅞
Commerzbank ⅛ 89	150	99⅞	0	6⅛
Council of Europe 93	50	99⅛	0	6
Cred for Exports ⅛ 92	165	99⅞	0	6⅛
Credit Foncier ⅛ 94	70	100	0	7⅛
Credit Foncier 97	350	99⅛	0	6½
Credit Foncier ⅛ 00 £	100	100	−0⅛	11⅛
Credit Lyonnais ⅛ 99	250	100⅛	0	6⅛
Credit National ⅛ 95	175	99⅞	0	7⅛
Creditanstalt ⅛ 96	150	99⅞	0	6
Eldorado Nuke 89	100	99⅛	0	5⅞
ENEL ⅛ 93 £	100	100⅛	0	9⅞
ENEL ⅛ 00	300	100	0	5⅞
Ferro Del Stat 1/10 95	100	99⅞	−0⅛	6⅛
Ferro Del Stat 97	420	99⅛	−0⅛	6⅛
Finnpap ⅛ 95	100	99⅛	0	6⅛
First Bk System ⅛ 97	100	97⅛	0	6⅛
First Chicago ⅛ 98	125	97	−1⅛	6⅛
Ford Motor Cr ⅛ 91	200	99⅛	0	6⅛
Genfiance ⅛ 94	100	99⅞	0	6⅛
Grindlays ⅛ 94	100	100	0	6⅛
GW O/S Fin ⅛ 94	100	98	0	6⅛
Halifax BS 2/25 96 (A)	150	99⅛	−0⅛	10⅛
Halifax BS 2/25 96 (B)	150	99⅛	−0⅛	9⅞
Hessische Landesby 96	100	99⅛	−0½	6⅛
Iceland ⅛ 00	125	99⅛	−0⅛	6⅛
Ireland ⅛ 96 £	100	99⅛	−0⅛	10½
Ireland ⅛ 97	300	100	0	5⅞
Isvelmer ⅛ 90	175	99⅞	0	6⅛
Italy ⅛ 05	500	100	0	6⅛
KB Iflma 0.15 11	150	98⅛	−0⅛	6⅛
Korea Exchang Bk ⅛ 00	100	100⅛	0	6⅛
Lincoln S & L ⅛ 99	100	98⅛	−0⅛	6⅛
Linfin Cpn ⅛ 01	200	99⅛	0	6⅛
Malaysia ⅛ 92	250	99½	0	6⅛
Malaysia ⅛ 05	650	91	−0½	6⅛
Marine Midland ⅛ 09	150	97⅛	−0⅛	6⅛
Midland Intl ⅛ 92	150	100⅛	0	6⅛
Milk Marketg ⅛ 93	75	98	−0⅛	11⅛
Mitsui Fin ⅛ 96	100	100	0	5⅞
Morgan J P ⅛ 97	250	100	0	6⅛
Mtg Intermed ⅛ 10 £	50	99⅞	0	11½
Nat Bank Canada ⅛ 91	50	99⅛	0	7
Nat Bank Canada 96	200	99⅞	0	6⅛
Nat Bk Canada ⅛ 98	150	99½	0	6⅛
Nat Bk Detroit ⅛ 98	100	98	+0½	6⅛
Nat West ⅛ 05	400	99⅛	−0⅛	6⅛
Nat West Fin ⅛ 92	100	100⅛	+0⅛	6⅛
Nationwide 1/10 96	250	99	−0⅛	11⅛
Natl Com ⅛ 94	200	99⅛	−0⅛	6⅛
NBD Bancorp ⅛ 2005	100	99⅛	+1⅞	6⅛
Northeast Sav 1/10 96	150	99⅛	0	6⅛
ONGC ⅛ 96	125	99⅞	0	6⅛
Oster Landby ⅛ 99	100	99½	0	5⅞
PNC Fin ⅛ 97	100	98	−0⅛	6⅛
Quebec Hydro 2002	200	99⅞	0	6⅛
Queensland Coal 1/20 96	306	99⅛	0	6⅛
Regie Olympiques 94	250	99⅛	0	6½
Santa Barbara S&L ⅛ 96	250	99⅛	0	6⅛
Scandinavia Fin ⅛ 90	20	100	0	11⅛
Scot Intl Fin ⅛ 92	100	100	+0½	6⅛
Sec Pacific ⅛ 92	100	99⅛	0	6⅛
SNCB ⅛ 91	75	100	0	6⅛
Sweden ⅛ 2005	500	99⅛	−0⅛	6⅛
Taiyo ⅛ 04	100	99⅞	0	6⅛
Takugin ⅛ 97	100	99	−0⅛	6⅛
Thailand ⅛ 05	60	98½	0	6⅛
Vereinwest O/S Fin 91	100	99⅛	0	6⅛
Wells Fargo 0.225 92	150	99⅛	+0⅛	6⅛
Wells Fargo ⅛ 96	50	97⅛	0	6⅛
Wells Fargo ⅛ 97	250	98⅛	+0⅛	6⅛
Wells Fargo ⅛ 98	200	98⅛	+0⅛	6⅛
Wells Fargo ⅛ 00	200	97½	+0⅛	6⅛
Westpac Banking ⅛ 97	150	98⅛	+0⅛	6⅛
Woodside Fin (Feb) 97	300	99⅛	0	6⅛
Woolwich Equit ⅛ 95	200	99⅛	−0⅛	10⅛
World Bank 0.35 94	250	99⅞	0	5⅞
Zentral Und Kom ⅛ 91	30	100	+0⅛	6⅛

CONVERTIBLE BONDS	Issued	Bid price	Chg. on week	Prem.
American Bnkrs 6⅛ 01	70	102½	−0½	41.72
BET 6⅛ 01 £	65	116⅛	+0⅛	−100.0
Canon 3 00	100	106⅛	−5⅛	3.86
Citizen Watch 3 00	60	132⅛	−0½	4.97
Eastman Kodak 6⅜ 01	300	118½	+2⅛	12.72
Elders UK 5⅛ 98	176	114½	−4⅛	−13.74
Fanuc 3⅛ 98	80	181½	−24⅛	−1.27
Fujitsu 3 99	180	117⅛	−1⅛	4.18
Gibraltar Savings 7½ 08	100	108⅞	+0½	18.58
ITT 4⅛ 87	50	113	−1½	−0.71
Kinder-Care Int 6⅛ 98	60	123⅝	−0⅛	96.72
Lorimar-Telepics 6 01	100	39⅛	0	79.29
Newmont Mining 7 01	100	129⅛	+1	0.35
Nippon Seiko 3⅛ 99	70	136⅛	+16½	1.77
Penney J C Int 4½ 87	35	118⅝	−0⅛	−1.16
Rockefeller Centre 0 00	952	29⅛	+0⅛	−71.16
Southwest Air 6⅛ 98	35	95½	0	85.89
Swiss Bank Corp 6⅛ 90	120	168⅛	+10	−3.65
Texaco Capital 11⅛ 94	500	102½	+1⅛	37.13
Toshiba Ceramics 3 00	50	122⅛	−0⅛	11.18
Xerox Corpn 5 88	75	98⅛	+0⅛	57.89

YEN STRAIGHTS	Issued	Bid price	Chg. on week	Yield
Allied Signal 6⅜ *93*	20	107½	−0½	5.13
Avon Products 6⅛ 91	25	106⅛	−0⅛	5.22
Barclays O/S 6 96	40	107	+0⅛	5.05
BFCE 5⅛ 96	20	105½	−0⅛	4.98
Canadian *Pacific* 6⅛ 96	10	112⅛	+0⅛	4.96
Denmark 6⅛ 92	20	109⅛	−0⅛	4.44
Dow Chemical 7 94	50	105⅛	+0⅛	6.22
Eurofima 6⅛ 96	15	107⅛	−0⅛	5.34
Eurofima 6⅛ 92	10	105⅛	−0⅛	5.39
FNMA 6½ 92	50	110⅛	−0⅛	4.52
GMAC 6½ 90	25	106	−0⅛	4.24
Int-Amer Dev 7⅛ 93	15	108½	−0⅛	6.61
Intel 6⅛ 92	12.5	101⅞	−0⅛	6.18
ITT 6⅛ 92	20	109⅛	−0⅛	4.47
McDonald Corp 6½ 92	25	108⅞	−0½	4.43
New Zealand 7⅛ 90	15	110⅛	−0⅛	4.06
New Zealand 7⅛ 89	15	108	−0⅛	4.15
Penney J C 6⅛ 92	25	108⅞	−0⅛	4.86
Philip Morris 6½ 91	20	107	−0½	4.49
Sallie Mae 6⅛ 92	25	109⅛	−0½	4.49
TRW 7 94	15	105⅛	+0⅛	6.15
World Bank 7⅛ 93	20	117½	0	4.82
World Bank 8 93	20	118½	−0⅛	4.39

LUXFR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
Asian Dev Bank 8⅛ 87	400	99⅛	0	9.82
EIB 10½ 94	1bn	107½	0	9.01
Eurofima 10 94	600	105	0	8.95
Eur Coal & Stl 10⅛ 94	1bn	103½	0	8.79
Renault Acc 7⅛ 88	500	100	0	7.70

GUILDER STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN 7⅛ 89	150	103⅛	0	6.12
ABN 8 89	200	103	−0⅛	6.17
Amro Bank 7⅛ 89	150	102½	0	6.19
Amro Bank 8 89	200	103⅛	−0⅛	6.19
Beatrice Foods 8⅛ 89	100	103⅛	0	6.65
Bk Mees & Hope 8⅛ 89	100	103⅛	0	6.12
CC Rabo 8 89	150	103½	0	6.13
Denmark 8½ 91	100	107⅛	0	6.30
Int Stand Elec 8½ 89	100	103⅛	−0⅛	6.31
New Zealand 8⅛ 89	100	104	−0⅛	6.30

CANADIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
AIDC 10 91	100	105⅛	+0⅛	8.20
Aust Resources 11⅛ 92	50	109⅛	+0⅛	9.05
Bank of Tokyo 10⅞ 92	75	102	0	10.33
Bqe l'Indosuez 14 91	75	111⅛	−0⅛	10.45
Br Col Munic 12⅛ 91	100	113⅞	+0⅛	8.50
Br Col Munic 13½ 91	100	117⅛	+1⅛	8.51
Br Col Tele 12⅛ 89	70	106⅛	−0⅛	11.20
Farm Cred Corp 12⅛ 90	75	110⅞	+0⅛	8.49
Kligg Salada Can 9 92	50	103⅛	+1½	8.19
Laval City 10⅛ 96	40	107⅛	+0⅛	9.41
Montreal City 12⅛ 91	50	111⅛	+1⅛	8.80
New Brunswick 12 95	75	116⅛	+1⅛	9.15
Nova Scotia 11⅛ 95	100	113½	+0⅛	9.15
Royal Trustco 10⅛ 90	75	106⅛	+0⅛	8.51

ECU STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN 9⅛ 92	100	104⅛	0	8.40
Aegon NV 7⅛ 95	101	97	+0⅛	7.73
All Nippon Air 9 95	130	107⅞	+0⅛	7.89
Australia & NZ 10⅛ 91	50	105	+0½	9.20
Austria 10⅛ 93	100	109⅛	−0½	8.43
BFCE 8⅛ 93	150	109⅛	+0⅛	7.98
BFCE 9⅛ 92	100	110⅛	0	7.19
BNP 8⅞ 95	75	105⅛	−0⅛	7.99
Caisse Nat Tele 9⅛ 92	75	110	0	7.32
Chrysler Fin 9 92	75	102⅛	0	8.46
Colgate-Palmolive 8 91	75	102⅞	0	7.32
Cred Lyonnaise 6⅞ 92	175	96⅛	+0⅛	7.28
Cred National 10⅛ 94	50	109½	+0½	8.80
Cred National 11⅛ 91	50	107⅞	−0⅛	8.89
Creditanstalt 8⅞ 94	67	108⅛	0	7.74
Denmark 7⅛ 98	250	98⅛	+0⅛	7.82
Ebco Intl 10⅛ 89	55	103	0	9.04
EEC 11⅛ 91	50	108	+0⅛	8.87
EIB 9⅛ 96	200	105½	0	8.27
EIB 10⅛ 94	130	113½	+0⅛	7.81
EIB 11⅛ 92	75	107½	−0⅛	9.33
Genfinance 11 90	70	106⅛	0	8.69
Giro Vienna 10½ 93	60	108½	0	8.75
GTE Finance 10½ 92	50	107	0	9.08
Ireland 10⅛ 96	50	106⅛	0	9.02
Italian Govt 10½ 92	600	109⅛	−0⅛	8.28
Italian Treas 11½ 90	600	106⅞	+0½	8.47
Italy 9⅛ 89	200	104⅛	−0⅛	7.08
Kredietbank L 9⅛ 92	75	103⅛	0	8.41
Morgan Gty Tst 8½ 90	100	103⅛	−0⅛	7.29
Royal Bk Can 10.5 89	95	102½	0	9.08
Swedish Export 11 89	57	104	0	8.67
West LB 10⅞ 91	90	107	0	8.63
World Bank 10⅛ 88	100	102⅞	0	8.63

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
BMW Fin A 13⅛ 96 SW	75	102⅛	+0⅛	13.27
Nat Aust Bk 12⅛ 89	50	95½	+0⅛	15.33
SBC Australia 12½ 90	50	0		
Westpac Bkng 12⅛ 90	50	94	+0⅛	15.03

STERLING STRAIGHTS	Issued	Bid price	Chg. on week	Yield
British Oxygen 11⅛ 91	50	107	0	9.00
Denmark 10⅛ 89	75	101⅛	−0½	9.31
EEC 11⅛ 94	50	108⅛	−1⅛	9.67
Emhart 11 92	35	104½	−0⅛	9.98
Halifax BS 9⅛ 93	100	99⅛	−0⅛	9.68
Ind Bk Japan 11⅛ 95	30	103⅛	−0½	10.81
Int Stand Elec 11⅛ 89	50	102⅛	+0⅛	9.98
Investors Indus 10⅛ 93	25	103⅛	+0⅛	10.00
Ireland 11½ 94	50	108⅞	+0⅞	10.20
Kredietbank 10⅛ 92	50	103	−1	10.08
Land Securities 9½ 07	100	91⅛	−1½	10.49
Leeds Permanent 9⅛ 93	50	98	−1⅛	9.70
Mitsbshi Fin HK 11 90	50	103½	−0⅛	9.89
World Bank 10⅞ 89	100	102⅛	−0⅛	9.30
World Bank 11⅛ 88	100	101⅛	−0⅛	9.73
Yamaichi Scs 3⅛ 91 XW	20	77½	+0½	9.98

EQUITY WARRANTS	Expiry date	Bid price	Chg. on week	Prem.
Casio Computer	6/3/89	35⅛	−5⅛	17.86
Dowa Mining	20/7/90	17⅛	+1⅛	87.24
Fujita Corpn	9/9/91	31	+4⅛	30.21
Fujitsu	31/1/91	22⅛	−7½	45.29
Gunze	23/11/90	51⅛	−1⅛	4.10
Minebea	22/5/91	17⅛	+0⅛	13.76
Renown Inc	24/1/89	24⅛	−0⅛	21.12
Seino Trans	17/3/89	88	−1⅛	−2.73
Sonoike Mfg	12/8/91	16½	0	30.80
Sony Corp	28/4/90	20	+0⅛	59.75
Sumitomo Corp	24/1/91	67½	−2⅛	10.31
Toray Ind	10/12/90	63⅞	+2⅞	18.71
UNY	17/6/91	12⅛	−0⅛	66.66

BOND WARRANTS	Expiry date	Bid price	Chg. on week	yield
Aegon Ins 11⅛ 91	15/2/88	110⅞	−0⅛	7.98
Dart Kraft F 10⅛ 98	1/7/96	u		
D Norske Cr 8⅛ 96	8/8/89	60⅛	+41⅛	7.33
Eksportfinas 13⅛ 88	15/9/87	0		
Gen Elec Crd 12 94	15/11/87	114⅞	−36⅛	8.77
Ind Bk Jpn 12⅞ 91	5/10/89	0		
Mitsubishi F 12⅛ 91	8/11/88	118½	−51⅛	9.37
JP Morgan 11⅛ 90	18/9/87	108⅛	+29	7.01
Nordic Iv Bk 7⅛ 98	30/10/91	61	+41	6.97
Sumi Tr Fn 12½ 92	20/2/92	0		
Wlls Frgo A 12⅛ 91	27/12/89	0		
Weyerhar C 11½ 90	15/11/87	108⅛	+21⅛	7.46

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on March 27.

Bull plans FFr 800m bond issue

BY PAUL BETTS IN PARIS

BULL, the nationalised French computer group, is planning to launch a FFr 800m ($133) bond issue with equity warrants to help finance its international development strategy, including its recently constituted joint venture with Honeywell of the US and NEC of Japan.

The equity warrants will inject additional capital of about FFr 1bn if they are all converted during the next two years, Mr Francois Lorentz, Bull's managing director, said.

He disclosed that Bull also planned to have shareholders subscribes to a new capital increase this year which would raise a further FFr 1 billion for the company.

These capital operations coincide with the completion of the agreement between Bull, Honeywell and NEC to form a jointly held company called Honeywell Bull incorporating the assets of Honeywell's information systems division.

Bull's initial investment in the $657m venture will total $131m. The French computer group will initially own 42.5 per cent of the company with Honeywell also holding a 42.5 per cent share and NEC a 15 per cent stake.

However, Bull will acquire an additional stake from Honeywell in the new company by the end of next year which will increase its stake to 65.1 per cent. Honeywell will drop back to 19.9 per cent and NEC will maintain 15 per cent.

This additional stake is expected to cost Bull between $65m and $70m bringing the total cost of Bull's investment to around $200m, Mr Lorentz said.

Bull, which signed the definitive agreement for the creation of the new company on Friday, said Mr Jacques Stern, Bull's chief executive and chairman, had been named chairman of the venture.

Mr Jerome Meyer, the former executive vice president of Honeywell Information Systems, has been named chief executive officer of the new company, which will have annual sales of $1.9bn and employ 20,500.

Mr Lorentz said the new venture would enhance Bull's ability to penetrate international markets. Bull recently reported consolidated net earnings of FFr 271m on sales of FFr 17.8bn last year.

Fokker earnings plunge by 38%

By Laura Raun in Amsterdam

FOKKER, the Dutch aerospace group, reported that its earnings plunged by 38 per cent to Fl 19.1m ($9.5m) in 1986 from Fl 33.1m the year before, on the high development costs and production delays in its two new aircraft.

The drop was in line with the company's warnings that the costs of the Fokker 50 and Fokker 100, originally estimated at around Fl 1bn, were rising faster than expected, in part due to production delays. Financial claims from customers who are getting their airplanes late also hurt profits although the size of the claims was not disclosed.

Earnings per share slumped 44 per cent to Fl 3.66 from Fl 6.55.

As a result Fokker cut its 1986 dividend to Fl 1.75 a share from Fl 2.75 in 1985.

The first 50-seat, turboprop Fokker 50 was to have been delivered to Ansett of Australia in September 1986 but now will be delivered in the middle of this year. The first 100-seat, fanjet Fokker 100 will be handed over to Swissair at the end of this year instead of next month.

Fokker unveiled the short- to medium-haul aircraft in the autumn of 1983 amid great condidence that they could be made for relatively less than competing aircraft because they were designed as modernised versions of existing craft. The Fokker 50 is a successor the F-27 and the Fokker 100 is is a successor to the F-28.

The Amsterdam-based company recently was granted easier repayment terms by the Dutch government on loans for the Fokker 100, for which Fokker has a record 2bn order from GPA, the leasing company. Fokker also has lined up Fl 500m in fresh bank credit to help with total debt that soared 51 per cent to Fl 413m last year.

Turnover rose a modest 5 per cent to Fl 1.40bn in 1986 from Fl 1.33bn the year before.

Singapore banks show recovery

By Steven Butler in Singapore

PROFITS RECOVERED modestly last year at two of Singapore's leading bank groups, Overseas Chinese Banking Corporation (OCBC) and United Overseas Bank (UOB).

Attributable profits at the UOB group increased by 7.1 per cent to S$106m (US$49.6m). Profits at the bank itself, however, grew by just 1.6 per cent to S$99m, indicating that banking profits are still being affected strongly by the continuing recession in the property market. The results were also affected by lower interest rates and narrowed margins.

Results were broadly similar at the OCBC group, with earnings rising by 3.8 per cent to S$104.8m. However, the increase was accounted for entirely by associated companies, while earnings at the bank itself declined from S$85.7m to S$77.9m.

The results complete reporting by Singapore's "big four" banks. DBS Bank put in the smartest performance with a 44.2 per cent jump in attributable profits, while earnings at the Overseas Union Bank were sharply lower, mainly because of losses due to fraud at its Hong Kong main branch.

McLean to sell most of remaining shipping assets

BY OUR NEW YORK STAFF

McLEAN INDUSTRIES, the financially troubled owner of one of the biggest American flag shipping fleets, which is controlled by the 73-year-old Mr Malcolm McLean, the pioneer of modern-day container shipping, has agreed in principle to dispose of substantially all of its remaining shipping assets.

US Lines, McLean's main subsidiary which filed for bankruptcy late last year, has agreed to transfer its South American vessels to American Transport Lines, a unit of Crowley Maritime, and will sell its Brazilian and Argentinian subsidiaries to American Transport.

US Lines has also signed a letter of intent with Sea-Land Corporation, its arch-rival which was acquired by CSX Corporation last year, for the transfer of six vessels, certain port facilities and various other equipment. Sea-Land will pay $125m upon delivery of all of the assets free and clear of liens.

The future of McLean's 12 Korean-built giant containerships, which precipitated McLean's financial crisis, has still to be resolved.

Fletcher bid refused clearance

BY DAI HAYWARD IN WELLINGTON

THE New Zealand Commerce Commission has initially refused clearance for NZ$1.5bn (US$848m) contested takeover by Fletcher Challenge of New Zealand Forest Products a rival agri-industrial group.

In an interim report, the commission says Fletcher had failed to prove what it claimed would be public benefits from a takeover.

Fletcher would obtain a more dominant position in some areas of the market and any public benefits would have to be "very significant."

The commission will give its final decision on April 23 and companies involved have until April 6 to put forward further arguments countering any points made in the interim report.

NZFP has opposed the bid, launched late last year and stince stalled.

Bredero faces third inquiry by bourse

By Laura Raun in Amsterdam

BREDERO, the troubled Dutch construction company, is at the centre of an insider-trading inquiry by the Amsterdam Stock Exchange for the third time in six months.

The bourse is investigating whether inside information was leaked in advance of Bredero's planned release of its 1986 results last Wednesday. Bredero, which previously said it expected to lose Fl 60m ($29.1m) in 1986, has now delayed the results until mid-April pending an emergency review of its finances with creditor banks.

The Stock Exchange Commissioner for Listings cancelled all trades in Bredero made last Tuesday and dealings have remained suspended. In September and November last year suspicions of insider-trading abuses also prompted bourse inquiries but neither found evidence of wrong-doing.

Bredero encountered difficulties last year when it became apparent that Breevast, its 36.7 per cent owned property subsidiary, was sinking into the red. Since October Breevast has had temporary court protection from its creditors and as of January its debts exceeded assets by Fl 91.3m, according to a receiver's report.

In November Bredero announced drastic measures to try to return to the black.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Home Shopping §‡	100	2002	12.2	5½	100	Drexel Burnham L'bert	5.500
LSI Logic Corp. §‡	125	2002	15	6¼	100	Morgan Stanley	6.250
Credit National ‡	100	1992	5	7⅝	101⅝	LTCB Int.	6.979
Keppel Corp. §	60	1997	10	(4–4½)	100	Mgn Grenfell/Daiwa S'pore	*
American Can §‡	175	2002	15	5½	100	Morgan Stanley	5.500
Banco di Sicilia ‡	30	1992	5	0	70.40	Nomura/Yasuda Trust	7.272
Keihan Elec. Express ¶	150	1992	5	(2⅞)	100	Yamaichi Int. (Eur)	*
Chiyoda Fire & Marine ¶	70	1992	5	(2¾)	100	Daiwa Europe	*
Essarch Corp. §‡	100	2002	15	6⅜	100	Salomon Brothers	6.375
CANADIAN DOLLARS							
Comm. Bk. de Montreal ‡	75	1997	10	8⅝	101⅝	BNP	8.628
Montreal Trustco ‡	100	1992	5	8½	101	Société Générale	8.248
AUSTRALIAN DOLLARS							
Tasmanian Public Fin. ‡	46	1992	5	14¾	101½	Deutsche Bk Cap. Mkts.	14.419
LB Schleswig-Holstein ‡	30	1990	3	14⅝	101⅜	ANZ Merchant Bank	14.032
Bell Group §	125	1997	10	(10)	100	Banque Paribas	*
Nordic Inv. Bank ‡	100	1992	5	0	53½	Chemical Bank Int.	13.320
Cr.Lyonnais A'tralia ‡	40	1990	3	14½	101⅛	Hambros Bank	14.015
LB Rheinland-Pfalz ‡	75	1992	5	0	52¾	Orion Royal Bank	13.845
Walt Disney ‡	75	1990	3	14½	101⅜	Warburg Securities	13.909
IBM Australia Cr. ‡	75	1990	3	14⅛	101¼	Salomon Brothers	13.598
NEW ZEALAND DOLLARS							
American Ex. O'seas Cr. ‡	50	1990	3	18	101¼	Hambros Bank	17.430
Swedish Export Cr. ‡	75	1989	2	19	101¼	CSFB	18.200
D-MARKS							
Inspectorate Int.Fin. ¶‡	200	1992	5	2	100	SBC (Germany)	2.000
SWISS FRANCS							
Teikoku Kako Co.** ¶‡	40	1992	–	1⅜	100	Crédit Suisse	1.375
CMK Corp.** ‡	20	1992	–	4⅝	100⅝	Crédit Suisse	4.884
Hoechst Invest ‡	130	2001	–	5	100	Crédit Suisse	5.000
Nippon Signal** ¶	50	1992	–	(1⅜)	(100)	Morgan Stanley	*
EDF** Ø‡	100	1995	–	3⅜	100	Crédit Suisse	3.375
ECUs							
Eurofima ‡	124	1997	10	7⅜	101½	Société Générale	7.160
Euratom ‡	145	1997	10	7⅜	101⅛	Banque Paribas	7.213
FRENCH FRANCS							
Copenhagen Tel. ‡	600	2002	15	(b)	101½	CCF	–
LUXEMBOURG FRANCS							
American Ex. O'seas Cr. **‡	300	1992	5	7¼	100¼	BIL	7.160
STERLING							
DRG Plc ‡	40	2002	15½	9¼	100	Baring Brothers	9.250
Leeds Permanent (a) ‡	50	1992	5	9¼	100⅞	Baring Brothers	9.025
Chrysler Fin. Corp. ‡	50	1992	5	9½	101⅛	UBS (Secs)	9.200
Woolwich & Equitable ‡	50	1992	5	9½	101⅝	Chase Inv. Bank	9.081
AUSTRIAN SCHILLINGS							
Austria (c) †‡	3bn	1997	10	⅛	100	Oest. Landerbank	–
DANISH KRONER							
Finnish Export Cr. ‡	150	1989	2	11	101	Copenhagen Handelsbk	10.421
Finnish Export Cr. ‡	150	1990	3	11	101⅛	Copenhagen Handelsbk	10.543
Finnish Export Cr. ‡	150	1991	4	11	101¼	Copenhagen Handelsbk	10.681
Denmark ‡	200	1989	2	0	82⅛	Privatbanken	10.347
Denmark ‡	200	1990	3	0	73⅜	Privatbanken	10.620
Denmark ‡	200	1991	4	0	66½	Privatbanken	10.737
YEN							
Finnish Export Cr. ‡	20bn	1992	5	4⅝	102⅜	Yamaichi Int. (Eur)	3.761
Asea Capital Corp. ‡	10bn	1992	5	4½	102⅝	Mitsui Fin. Int.	3.967
Kyushu Elec. Power ‡	20bn	1994	7	4¾	101⅝	Nomura Int.	4.474
Skand. Enskilda Banken ‡	18bn	1992	5	4½	101⅜	Daiwa Europe	4.189
Norway ‡	60bn	1992	5	4¼	101⅝	Nomura Int.	3.886
ASLK-CGER Finance ‡	16bn	1995	8	5½	101½	IBJ Int.	5.265
C'wealth Bk Australia ‖‡	15bn	1992	5	8	101¾	Salomon Brothers	7.567
Société Générale (d) ‡	15bn	1992	5	4½	102	Daiwa/Mitsui Trust	–

* Not yet priced. ‡ Final terms. ** Private placement. † Floating rate notes. ¶ With equity warrants. Ø With gold warrants. Issued by Crédit Suisse. § Convertible. ‖ Currency linked. (a) Partly paid. (b) Retractable/adjustable, coupon 9% first 5 years. (c) ⅛ over 3m Vibor, initial 3 year life – issuer has right to make two 3 year extensions and a further 1 year extension. (d) Coupon: 4½% first 4 years, final year 7½%. Note: Yields are calculated on AIBD basis.

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Mixed bag for Lesser

LESSER DESIGN & BUILD, a member of the Lesser Group, is working on contracts with an overall worth of £20m. The work includes a warehouse and showroom complex for Heidelberg Graphic Equipment at Bramley, Leeds; a Tesco superstore at Crawley; a sports and leisure complex for Horsham District Council; six research and development buildings for Surrey University Research Park; a fitting out contract for B & Q's headquarter offices at Chandler's Ford; a special laboratory for the PSA at Devonport Dockyard; and a conference and leisure complex at Effingham Park, Sussex.

★

COSTAIN CONSTRUCTION has been awarded a £10m contract by Lakeside Trading Estate to build a retail warehouse development on a 22 acre plot at West Thurrock, Essex.

Called Lakeside Retail Park, it is made up of four warehouse structures providing a total of 300,000 sq metres of retail space which will be sub-divided into 11 self-contained retail premises. Costain will also undertake landscaping, to include a 1,200 space, tarmac-surfaced car park, and a covered walkway to link all units. The buildings, to be supported on 3,200 precast reinforced concrete piles, are conventional steel-framed structures clad in a profiled aluminium finish, with fairfaced blockwork walls internally to 2 metres above floor level. Roofs are of an insulating sandwich construction, metal deck, and the floors will be of 12 inch thick reinforced concrete construction. The contract has a duration of 50 weeks and is scheduled for completion in February 1988.

Transformation at the Midland Hotel

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

In just six weeks' time Fairclough will have completed a £10.5m contract to transform Manchester's faded Edwardian Midland Hotel into the first Holiday Inn Crowne Plaza in the UK.

This fast-track project has required 400 men on site and spending at the rate of up to £1m a month.

The entire contract, involving gutting, stripping and restoring to panelled and gilded magnificence the 6.2 acre Midland, with its three and a half miles of corridors, will have taken a total of 15 months.

Fairclough was awarded the contract not just on price but also after detailed negotiations on performance.

It only managed to achieve such a rapid work rate as a result of what Mr Rodney Anderson, managing director of Fairclough western division, describes as a "honeymoon period."

The company submitted a preliminary tender and then, having been awarded a retainer for the contract, submitted a final price and firm timetable after working with the architects, surveyors and Holiday Inn management to discover exactly what was involved.

The US-based Holiday Inn Company owns 49 per cent of the Midland, originally one of British Rail's hotels. The remainder is owned by Commercial Union and the local authority.

Much of the success of Fairclough's contract will depend on the skills of the craftsmen provided by William Irwins, a Leeds-based contractor which is carrying out the decorative plastering, gilding, marbling and woodwork essential to restoring the ornate hotel.

The contract has also involved solving structural engineering problems.

Opened in 1903, the Midland was one of the first steel-framed buildings erected in the UK, and presented problems when Holiday Inn wanted to open a banquetting hall for 700 people within the framework of the old hotel.

With Ove Arup as consulting engineers the problem was solved by inserting what is believed to be one of the largest bridge beam structures ever used in a building. Five metres wide and 5½ metres deep, with a 19 metre span, and designed to carry a load of 3,900 tonnes.

This structure carries the weight previously borne by one main external wall and four primary load-bearing steel columns, which rose seven-storeys above this level.

To support the load from these four columns the bridge beams were placed above them, supported by two new concrete columns resting upon new foundations. Once the new load-bearing structure was in place the old steel columns were then cut away.

★

CRENDON STRUCTURES, of Long Crendon in Bucks, has won contracts for precast concrete structures valued at over £4.5m. The nine projects are for super-stores, hi-tech units and office blocks.

★

MILLER CONSTRUCTION are to build a £3m time-share development—styled on the 17th century architecture to be found in Kenmore Village — on the shores of Loch Tay. The 30 two- and three-bedroomed houses will be built in the walled garden of the ancient estate of Breadalbane. This new Kenmore Club, just two hours drive from either Edinburgh or Glasgow, is in the heart of the Scottish Highlands. Each house will look down on a courtyard featuring two pavillions and an original Gothic arch leading to a landing jetty. An adjacent leisure complex — which overhangs the loch—will incorporate an enclosed swimming pool, squash courts, gymnasium, snooker room and dining and lounge facilities. Two tennis courts will also be built. Completion is scheduled for June 1989.

Leisure centre at Bournemouth

RUSH & TOMPKINS has won three building contracts in the south west worth £7.5m including a £5.6m contract with Bournemouth Borough Council for a recreation centre at Chaseside, Littledown.

Work is about to start on the 7,000 sq metre complex which includes a competition pool, twin external water slides, a multi-purpose sports hall, four squash courts, health and fitness rooms, changing facilities and a buffet and bar. The vaulted main roof is of timber with a 48 metre main span. Completion is scheduled for September 1988.

In Poole, Dorset, a £1m contract with Wessex Regional Health Authority is due to start for construction of Alderney geriatric hospital at Ringwood Road. The single-storey brick structure will have a 24-bed ward and day centre and is due for completion in July next year.

Finally, in Nantgarw, South Glamorgan, the company has won an £800,000 two-month contract with British Airways for an extension to its engine overhaul facility in Caerphilly Road.

★

WALTER LAWRENCE has been awarded building contracts worth a total of £7.9m. These include refurbishment of the Piccadilly Park Hotel to include 98 bedrooms, a reception area, kitchen and restaurant together with new services. A new mansard roof and façade repairs will also be provided. This is for London Park Hotels at £2.25m. An elderly care unit at Gossoms End, Berkhamsted, for the North West Hertfordshire Area Health Authority will cost £1.8m. A three-storey block of 37 flats at St Matthias Church site, Hermit Road, Canning Town, for Springboard Housing Association will cost £1.5m and include a single-storey church. Walter Lawrence will repair and refurbish, at £1.4m, 160 flats at Bemerton Estates for the London Borough of Islington. This will be undertaken over 52 weeks. The company is also building a warehouse/office unit on two floors at Imperial Street, Bromley-by-Bow, London, for Tesco at £500,000.

Glasgow houses modernisation

DRAKE & SCULL (SCOTLAND), Glasgow (a Simon Engineering company), has been awarded two contracts worth £5.65m by the City of Glasgow District Council for modernisation of houses at Hamiltonhill and Govanhill. At Hamiltonhill, 480 houses will be modernised at a cost of £4.45m. The work involves all electrical and plumbing services, plaster work, carpentry and cladding of the buildings using Superlit variegated stone finish acrylic wall coating. Completion is due by the beginning of December. Under an improvement programme at Govanhill, 123 houses are to be modernised. This work is costing £1.2m and is scheduled for completion in October.

★

SIR ROBERT McALPINE & SONS has been awarded a £7.4m contract by South Glamorgan County Council for a five-storey magistrates' courthouse in Fitzalan Place, Cardiff. The triangular-shaped building, with basement car park and roof-level plant rooms, will be of reinforced concrete frame construction and finished in brick, with detailed and intricate brickwork features to recessed door and window openings. Providing a total floor area of 10,600 sq metres, the building will house 14 air-conditioned magistrates' courts and ancillary chambers, with administration and service facilities. Work includes installation of five passenger lifts and a vehicle turntable at ground level for use by police vehicles. The project is due for completion in July 1989.

★

R. MANSELL has been awarded a variety of contracts totalling £6.5m for refurbishment, repair, maintenance and minor works. Most are in London. The largest is for the demolition of 255-259 Old Brompton Road, in south-west London, and reconstruction with a five-storey building, including basement, under a £750,000 contract for City Commercial Real Estate Investment. Work has started and is due to complete in February 1988.

APPOINTMENTS

Changes at Greenwell Montagu

GREENWELL MONTAGU SECURITIES, institutional equity broking and research arm of Midland Montagu, has formed a new management committee, reflecting its decision to become a broker-dealer rather than a market-maker.

Mr Keith Brown is now managing director. He was director of research and marketing. Mr Martin Wonfor is appointed deputy managing director, with overall responsibility for UK sales and research. Mr John Walmsley is made dealing director. Mr Ernest Fenton is named international director. Other members of the management committee are Mr Edmond Bain, Mr John Finch and Mr Roger Harvey.

Mr Michael Davids, Mr Ian Macdougall, Mr Howard Myles, Mr Bill Troup and Mr Barry West are promoted to director.

Mr David Guest becomes managing director of Greenwell Montagu (Far East), a new company based in Hong Kong. He was previously with Hoare, Govett in Hong Kong.

★

Mr D B Money-Coutts has been appointed to the board of M&G GROUP.

★

Sir Keith Bright has been reappointed chairman and chief executive of LONDON REGIONAL TRANSPORT for a further three years until August 31 1990.

★

Mr Hugh Gilbert retired as executive chairman of the PRICE & PIERCE GROUP on March 25 and his executive responsibilities have been devolved to the chief executive, Mr Christopher E. J. Allanson. Mr Gilbert will continue as non-executive chairman of the group and as chairman of the trustees of the pension fund.

★

SAVILLS has appointed Mr Colin Masterson as finance director. He succeeds Mr John Hancox, who has joined Charles Russell & Co. Mr Masterson was previously group financial controller at Vickers.

★

SHIRES INVESTMENT has appointed Mr Michael Hardie to the board as a non-executive director. Until his retirement in December 1986 he was director and general manager of investments for Friends' Provident Life Office. He is a member of the investment committee of both Lloyds of London and Willis Faber.

★

Mr Brian Quick has been appointed executive chairman of ISLAND INTERNATIONAL. He is a managing director of Hill Samuel. Although leaving the bank, he will remain as non-executive chairman of several subsidiaries in the Hill Samuel Group.

★

INVESTMENT MANAGEMENT REGULATORY ORGANISATION has appointed as directors Mr Douglas C. P. McDougall, Mr Keith E. Percy and Professor Richard G. Smethurst. Mr McDougall is a partner in Baillie Gifford & Co. Mr Percy is managing director of Phillips & Drew Fund Management. Mr Smethurst is a deputy chairman of the Monopolies and Mergers Commission and a professional fellow of Worcester College, Oxford.

UK COMPANY NEWS

Richard Tomkins previews the forthcoming offer for sale by Pickwick

Putting its strategy on the right track

JOHNNY MATHIS, Thomas The Tank Engine, Yehudi Menuhin and Ian Botham may appear a disparate bunch of characters, but the names do share one common element: all appear on products distributed by Pickwick, the company once best known as a cut-price record label.

The breadth of interests is important to Pickwick, for it no longer wants to be associated only with the slightly outmoded black vinyl image. the company is poised to present itself to the stock market, and when it does so, it will be as a broadly-based distributor of home entertainment products.

A flotation on the main market is due in mid-May at a capitalisation of about £25m. Unusually for a company of this size, an offer for sale is planned, with N. M. Rothschild as sponsor, and Hoare Govett as broker.

Pickwick's origins go back to 1958 when Mr Monty Lewis, now the company's 66-year-old chairman, set up Gala Records, the first company in Europe to re-issue and re-package records at budget prices. Four years later, he took his business into the Pickwick company, which he co-founded with Pickwick International of the US.

At first, Pickwick concentrated almost entirely on record production, licensing back-catalogue pop and classical material from record companies and repackaging it under the Pickwick label. It added cassettes in 1972.

In the last five years the company has undergone a considerable change. Having extricated itself from an ill-starred takeover by American Can, which had control of the company from 1977 to 1982, Pickwick has won independence and pursued a vigorous diversification into other home entertainment products.

In 1983, Pickwick linked with Ladybird to produce the popular book-and-cassette format known as Tell-A-Tale. This range includes fairy tales, nursery rhymes and children's stories, and the company has the exclusive book-and-cassette rights to characters such as Thomas The Tank Engine, and Masters of the Universe.

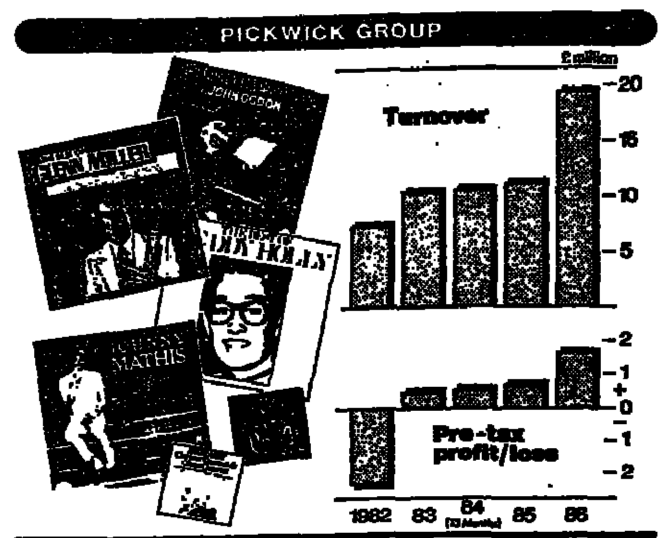
Compact discs were introduced in 1985, when Pickwick became the first in the market to produce budget classical CDs. Its IMP label, which sells at £7.99 compared with £12.99 for other labels, is one of the biggest in the UK with about 15 per cent of all classical CD sales.

The latest diversification has been into video cassettes, which began last year when a market developed for cheap pre-recorded videos selling at under £10.

Pickwick has exclusive rights in the UK to distribute a range of major film companies' titles on video, together with similar rights for BBC productions such as the Fawlty Towers series and Botham's Ashes.

The success of this operation can be gauged from the fact that its Screen Legends distribution subsidiary is currently responsible for 19 of the top 20 selling videos in Britain.

Last year, Pickwick also set up an international division which licences record companies to supply records overseas—using the digital master tape of Pickwick's own classical recordings.



Pickwick's recent expansion has largely been achieved through the exploitation of its extensive distribution network, which reaches outlets in virtually every high street in the UK.

Nearly all the major multiple retailers, including W. H. Smith, Boots, Tesco, Asda and John Menzies, stock the full range of Pickwick products.

Pickwick's strategy is to graft other home entertainment products onto the existing distribution network, so achieving maximum increase in sales at minimum increase in overheads.

The track record shows that the strategy has begun to work. From the mire of heavy losses in 1982 which followed a disastrous venture into full-price record distribution under American Can, profits have rocketed over the past year as the new activities have come on stream.

In June, last year the first step towards a flotation was taken when Mr Lewis sold 44 per cent of Pickwick's equity to a consortium of institutional investors led by Rothschild Ventures. At the same time Mr Ivor Schlosberg, the 40-year-old former chief executive of the RPM Record Group of South Africa, was brought in as managing director.

One reason for the flotation is to provide a market for the shares held by the investors. Pickwick is cash rich and will probably raise only around £3.5m in the offer for sale to buy out the institutions' redeemable stock.

Another £4m worth of stock is likely to be sold by existing shareholders.

Mr Lewis says he is happy to opt for an offer for sale rather than a lower-risk placing because it will create more publicity—and help raise the company's profile.

The success or otherwise of the issue will depend on how the market perceives the price, but as least one leisure sector analyst perceives the company as fundamentally attractive.

Mr Peter Hillier, of Barclays de Zoete Wedd, says Pickwick's skill has been to recognise that distribution is one of the keys to the business, and to have built up a network of customers going far beyond the usual record retailers.

"It's a relatively risk-free stock compared with record companies geared towards the popularity of the artists they sign up. Pickwick is basically a distribution system with only a small semi-creative involvement in the music industry."

Hobson sells loss-making subsidiary to Swedes

By Clay Harris

Hobson has completed its conversion to overseas trader by selling its loss-making Albatross, a patented aluminium die-making process, to Skandinaviska Aluminium Profiler.

The Swedish aluminium extruder will pay £100,001 and 5 per cent of gross sales over the next five years for Hobson Process, the UK company's only business when it came to the USM in June 1984. The division's five employees will be offered jobs in Sweden.

SAP was the first company to buy production equipment based on the Hobson process. Unfortunately few others joined it. Hobson reported no sales in 1984, followed by £3,991 in 1985 and £6,376 in the first half of last year.

Pre-tax losses grew from £67,775 in 1984 to £213,002 in 1985 and £122,091 in the first half of last year. Hobson had forecast that the process would lose up to £290,000 in the 15 months ending tomorrow.

This loss will now not appear in Hobson's trading results, but the group faces extraordinary write-offs of about £700,000 reflecting inter-company loans owed by the subsidiary.

Blanchards

THE CONTINUING downturn in the Middle East market and the resulting delay in starting major projects there saw Blanchards' interim profits fall 37 per cent to £254,000.

The interior design and furniture retail group reported slightly lower turnover of £3.16m for the six months to December 31, 1986, compared with £3.3m in 1985.

Earnings per share fell from 4.42p to 2.9p, but directors have declared an interim dividend up from 1.5p to 1.65p.

Dalgety seeks buyer for Canadian offshoot

BY RICHARD TOMKINS

Dalgety, the food and commodities group, yesterday confirmed speculation that it was seeking a buyer for Balfour Guthrie (Canada), its Vancouver-based timber operation. A price tag of £70m has been put on the company.

Dalgety has asked Lazard Brothers of the UK and Pemberton, the British Columbian merchant bank, to look for buyers for Balfour Guthrie and its subsidiaries in Canada, the UK and Japan. The search is expected to take several weeks.

Balfour Guthrie is Canada's seventh largest lumber producer. In the year to June 1986 it contributed turnover of £350m and trading profits of just over £7m to Dalgety's figures.

The Canadian lumber industry has suffered from labour relations problems in the past, but Dalgety said yesterday that the sale was dictated by the group's strategy of concentrating on food activities. Balfour Guthrie is its largest non-food business.

Pifco advances 24%

Pifco Holdings, Manchester-based electrical appliances manufacturer, reported interim pre-tax profits up 24 per cent to £506,000. Earnings per 20p share came out at 7.39p, against 5.41p, and the interim payment is being raised from 1.76p to 2.5p to reduce disparity.

The company also revealed that it had made an unsuccessful offer for TI's Russell Hobbs/Tower businesses which were eventually bought by Polly Peck earlier this year. Mr Michael Webber, chairman and managing director, said the company was still committed to growth by acquisition and was looking at a number of possibilities.

Trading profit for the six months to October 31 1986 more than doubled to £459,000 (£220,000) on increased turnover but the company did not reveal the figure. Mr Webber said that sales in the second half had been disappointing and trading profits would not show the same growth.

George Oliver £1.5m profit

George Oliver (Footwear) turned round the losses of £212,000 incurred in the first half into pre-tax profits of £1.46m for 1986 as a whole. For 1985 profits of £1.66m were achieved.

The company, a footwear distributor, improved turnover by 26 per cent, from £42.89m to £54.21m, but trading profits were lower at £1.7m (£1.83m).

The directors are recommending an increased final dividend of 8.02p (7.2p) bringing the total 1p higher to 10p. Earnings worked through 0.9p higher at 23.27p (22.37p), after a fall in tax from £437,000 to £182,000.

Munton Brothers in red midway

Munton Brothers, a manufacturer and designer of clothes, suffered a pre-tax loss of £373,000 in the six months to December 31 1986 against a profit of £360,000. Turnover fell from £6.71m to £5.9m.

The board said that—by restructuring the company's production facilities in order to remove surplus capacity, Munton should be in a position to return to profitable trading based upon current sales levels.

Total sales for the current year were unlikely to exceed those of last year and accordingly the board saw little sign of any immediate improvement in the company's trading.

MBS share placing and rights

BY RICHARD TOMKINS

MBS, the computer supplier which was rescued through a management buy-in at the end of 1985, is to strengthen its balance sheet through a share placing and a rights issue, which will coincide with its preliminary results in two weeks' time.

The company will raise about £10.5m net through a placing of 3.5m shares at 80p each, and a one-for-five rights issue of nearly 10.1m shares at the same price. MBS's existing shares closed 5p down at 106p on Friday, before the announcement was made.

MBS said it was raising the money to finance expanding sales. Turnover had grown from £66.8m in 1985 to an estimated £120m last year, and had now taken the company close to its borrowing limits.

The issue will also cut MBS's heavy debt/equity ratio. At present, it has borrowings of about £17m including £5m in convertible loan stock, compared with shareholders' funds of about £5.5m.

The figures for 1986 are due out on April 14, and are expected to show that first-half losses of £3.41m have more than been made up by profits in the second half. However, there is also likely to be a substantial below-the-line write-down on £3m worth of rental stocks.

MBS's new management team is headed Mr Owen Williams and Mr Stafford Taylor, two ex-IBM directors whose buy-in was backed by Chase Investment Bank. They staged a £7.8m rescue rights last year.

F.T. Share Information

The following securities have been added to the Share Information Service:

Bio-Rad Laboratories Inc A (Americans).

Eastmaque Gold Mines (Mines—Miscellaneous).

Investment Trust of Guernsey (Investment Trusts).

Kynoch (G. & G.) (Textiles).

MIL Research (Paper).

Mezzanine Capital & Income Trust 2001 (Investment Trusts).

Staley Continental (Americans).

Southampton IoW profit leap

Southampton, Isle of Wight and South of England Royal Mail Steam Packet, the shipping and road haulage company, returned a substantial rise in pre-tax profits from £1.28m to £2.55m in 1986 on turnover that moved ahead from £9.42m to £10.89m.

The directors said that the ferry, hydrofoil, towage, road-haulage, engineering divisions and the property development side had all contributed to the profits increase, and that further investments continued to be made in property developments.

The directors proposed a final dividend of 16p (12p), making a total of 20p (16p) for the year.

Tax charges totalled £689,403 (£273,748) after which earnings worked through substantially down at 5.75p (29.57p).

R & H HALL (Dublin-based grain merchant)—Pre-tax profits I£3m (I£1.94m) for 1986 from turnover of £661,800 (£135,011). Dividend 4.3p with 3.3p final. Earnings per share 10.68p (7.66p).

BOARD MEETINGS

TODAY

Interims—Old Court International Reserves, UDO Holdings.

Finals—Acorn Computer, Amari, Bipel, Blackwood Hodge, Boustead, British Syphon Industries, CCA Galleries, Campari International, Dwek Group, EBC, Emess Lighting, Estates and General Investments, Executex Clothes, James Halstead, Manders, Plasmec, Richardsons Westgarth, Rugby Portland Cement, Slough Estates.

FUTURE DATES

Finals—

Benalls	Apr 14
Billam (J.)	Apr 2
Biomechanics International	Apr 9
British Alcan Aluminium	Apr 6
Devlin and Metcalfe	May 6
French Connection	Apr 9
Forst Group	Apr 9
Geers Gross	Apr 3
Highcroft Investment Trust	Apr 30
Laird Group	Apr 2
NMW Computers	Mar 31

FINANCIAL TIMES STOCK INDICES

	Mar. 27	Mar. 26	Mar. 25	Mar. 24	Mar. 23	Mar. 20	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs.	90.76	91.22	91.56	91.66	92.19	92.04	94.51	80.39	127.4	49.18
Fixed Interest	97.43	97.20	97.33	97.32	97.52	97.89	97.98	86.55	150.4	50.53
Ordinary	1620.6	1614.9	1623.0	1625.2	1611.5	1598.9	1625.2	1094.3	1625.2	49.4
Gold Mines	432.8	428.2	412.4	386.6	367.4	362.4	432.8	185.7	734.7	43.5
FT-Act All Share	1025.08	1019.40	1021.72	1026.58	1014.73	1006.69	1026.58	664.42	1026.58	61.92
FT-SE 100	2048.6	2037.8	2042.9	2056.2	2033.0	2017.5	2056.2	1970.1	2056.2	986.9

MANAGEMENT

هكذا من الأصل

EDITED BY CHRISTOPHER LORENZ

Christie Hefner: selling more underwear than Calvin Klein

Playboy: seeking to redefine its image

BY DAVID OWEN

"THE DUST from the Meese Commission has settled and it has settled in our favour."

Christie Hefner, daughter of Hugh, founder, president and chief operating officer of Playboy Enterprises Inc, could be forgiven a wry grin at the way things have worked out since Attorney General Edwin Meese's pornography commission sent its now celebrated letter to retailers of Playboy Magazine and other adult titles last February.

The letter, which warned its recipients that they had been accused of being involved in "the sale or distribution of pornography," led several, including Southland Corp's 4,500-strong 7-Eleven convenience store chain, to drop the magazine. Five months later, it was a major factor in Playboy's decision to lower its advertiser rate base by 17 per cent to 3.4m, effective from the November 1986 issue.

The impact of the Meese debacle on the magazine's advertising and circulation, coupled with the spring closure of the three remaining company-owned Playboy clubs and the $62.2m net loss which the company incurred in its year ended June 30, prompted the vultures to start circling. "Playboy — the party's over" proclaimed Newsweek magazine at the time.

But the commission has since been prevailed upon to climb down from some of its loftier pronouncements. Not only was a court order obtained which directed it to rescind and repudiate the initial letter (Playboy has since filed a suit for unspecified damages). But following widespread criticism of a subsequent report citing a "causal relationship" between pornography and violence, the commission felt moved to clarify its stance, saying it was referring only to hard-core material.

Today, by a deft sleight of hand, Hefner is actually exploiting this criticism of the commission for bracketing Playboy with its litany of pornographic evils to reposition the company firmly at arm's length from the struggling X-rated industry.

She has earned the breathing space to do this, after years of indifferent results, by progressively paring Playboy down to what she sees as "the three profit centres that we want to form the core of the company" and slashing costs to put it on a sounder if still insipid financial footing. "The future prospects of the company are probably better now than they have been at any time in the recent past," says David Leibowitz, an investment banker with American Securities Corp in New York.

Hefner's strategy promises to restore a coherent sense of purpose to an organisation which has tended to drift rather aimlessly since its original role as the cutting edge of the American sexual revolution fell victim to its own success—rendered redundant because it found itself preaching to the converted.

While Hefner says that she wants Playboy to be seen as "the magazine that takes leisure seriously," the stepped-up diversification from soft-core pornography will be most clearly apparent in the company's video sector. Hefner formed the video division in 1982, her first year at the helm. It is widely regarded as the company's most promising potential growth area domestically and overseas.

The successful centrefold videos will, of course, continue. But two distinct developments are in the pipeline in a bid to differentiate Playboy products from the welter of cheaply-produced skinflicks which tend to proliferate in many video outlets.

First, the company is developing a racking process, designed to bring all its cassettes together out of the X-rated category. Hefner is aiming to place the racks in some 2,000 outlets within four months.

Second, Playboy is finalising a deal to take it into the information video field — of the Playboy Guide to Photography ilk. While the opportunities for cross-pollination with the magazine and the organisation's highly-profitable licencing/merchandising business are plainly apparent, the main attraction of such a move, says Hefner, is to get Playboy videos into non-specialist outlets such as camera shops.

The company says that the intention behind its broad-based approach is to translate the quality and diversity of the magazine into the video medium. Others might impute more pragmatic moves. After all, the end result would be to distance the company further from a depressed and over-subscribed market sector (the X-rated industry), to position it in a far less competitive, if rather nebulous, niche.

The licensing division, also established by Hefner in 1982, switched long ago from the novelty items on which the universally-recognised rabbit and bow tie logo used typically to appear, to a broader-based fashion/merchandise mix. "It really speaks for the asset value of the logo," says Hefner. "It is a very high margin business."

The division's origins date from 1953, when a mail-order business was set up to sell products calculated to boost sales of the fledgling magazine. The product range began to broaden in the 1960s when sales started in the then thriving Playboy clubs.

Licensees were recruited in the mid-1970s when it was realised that it could not distribute sales itself or continue to rely on mail-order sales alone, the preferred shopping method of only a minority of consumers. It has now extended its roster to 58 licensees which manufacture and market apparel, including jeans, swimsuits, sportswear and underwear, as well as other items like luggage and bedlinen around the world.

The major criterion in assessing the desirability of new licensing agreements is the quality of the product which will bear the logo. The company has benefited, in Hefner's view, "from cancelling some licensing arrangements." Despite this fastidiousness, the business looks well set for further growth, both domestically and overseas. "As of last year, we sell more underwear than Calvin Klein," Hefner says. "I get a kick out of that."

While the company recognises that the US industry is somewhat oversaturated, it feels that its market niche at the centre of the mass market arena—most products are targeted at adults aged 18-34 and outlets selling them include Sears, J. C. Penney and Montgomery Ward—together with its household name and its reputation for quality, will permit continued growth.

Most expect the dual spearhead formed by the licensing and video divisions to spur the company to operational profitability in the very near future, even if the latter is still held back by persistent problems with the Playboy Cable TV channel.

The company has never really succeeded in concocting a product mix which appeals to a wide enough range of viewers. While it is attempting to get closer to its audience by taking the marketing function in-house and starting to produce a monthly programme guide, a convincing improvement has yet to be achieved.

As it is, the company was marginally profitable at the net level in each of its first two fiscal 1987 quarters, thanks to various items of non-operating income including the sale of the lossmaking "Games" magazine.

However, analysts generally assume that the sluggish publishing division will continue to put a brake on the recovery. Though Playboy remains America's best-selling men's magazine, circulation has slid steadily from a peak 7.2m in 1972. Of more immediate concern, is the precipitous decline in advertising.

Hefner says that Playboy is addressing the problem by re-shuffling management and stepping up the number of regional issues—a move facilitated by the magazine's switch to a more flexible binding process last October. As a result, some advertisers are returning to the fold, such as Japanese consumer electronics manufacturers. Hefner says the April 1987 issue will be the biggest in ad pages since December 1985.

If the share price is a fair reflection, Hefner's strategy has certainly put Playboy in recovery mode. In one recent week, it shot up no less than 29 per cent, fuelling inevitable speculation that the magazine's founder, chairman and majority shareholder, Hugh Hefner, ostensibly out to grass writing his autobiography in the company's California mansion, might be plotting to take the company private.

Analysts however discount this possibility, pointing to "prohibitively adverse tax consequences" if Hefner were to mount a leveraged buyout.

Business ethics

'We need to strengthen each other's resolve'

BY MICHAEL SKAPINKER

"ALL THE perfumes of Arabia will not sweeten this little hand," declaimed Sir Geoffrey Chandler, summoning up Lady Macbeth in support of his contention that a company that acquires a reputation for shady practice will find it difficult to shake it off.

His audience needed little convincing. With the Boesky and Guinness affairs still dominating the headlines, there was an air of urgency at the first major conference of Britain's Institute of Business Ethics which took place in London last week.

Sir Geoffrey, director of Industry Year and its successor, Industry Matters, said that business had to earn for itself the kind of respect granted automatically to medicine, teaching and nursing.

"You will frequently hear senior industrialists and businessmen and women saying 'we are in business to make profits.' Well, so are burglars," he said. While businesses do have to make profits, they have a wider social responsibility, too. "We need to avoid the bad driving out the good. Everyone in industry suffers from the Guinness affair."

The institute's chairman, Neville Cooper, took up the theme. "There are plenty of crooks around. But for every outrageous crook who brings the City into disrepute, there are 30, 50, 100 people around who don't like it. We need to strengthen each other's resolve."

The Institute was launched last October, the day after Big Bang. The impetus came from members of the Christian Association of Business Executives (CABE). CABE has been in existence for many years, but its members felt the new institute needed a wider social base, reflecting the pluralist nature of modern Britain and its business community. The Chief Rabbi, Sir Immanuel Jakobovits, and the Imam of the Central London Mosque, Sheikh Gamal M. A. Solaiman, have both endorsed the aims of the institute.

These include the promotion of "the positive aspects of wealth creation and the ethical principles which must underlie them." Activities will include surveys, research and publications.

Last week's conference debated whether to draft a Code of Business Ethics. CABE drew up such a code about 15 years ago, but the consensus of the conference was that it was outdated. In particular, it did not pay sufficient attention to the dilemmas of doing business abroad.

Some of these dilemmas were highlighted in a controversial speech by Viscount Caldecote, chairman of Investors in Industry. What do you do, he asked, in those countries where "special commissions" are demanded in return for contracts? If you refuse to pay, the loss of business might mean redundancies for your workers back home. "Are you going to be happy to close a factory because you are so squeamish as not to follow the practice in that country?"

> "I have not heard the word 'exploitation' today. But what about the multinationals? Because we in the UK want things as cheaply as possible, other people have to suffer abroad" ... but moral dilemmas can occur closer to home, too

This upset some of the delegates. "You seem to be suggesting that you can have principles which you then compromise when you are in an overseas country," said one.

"I do not think it is that easy," Caldecote replied. "Conflicts of loyalty are difficult things. If you are selling sewing machines or something, and you are trying to sell 10 of those, it probably does not matter very much. But if you get a major contract for a power station, you will give people jobs for years. If you do not get it you will begin the process of throwing 500 people out of their jobs. That is something you must settle with your conscience."

There are principles to be applied in such situations, he said. One is that you never use such payments to persuade people to buy something that they do not need. The other is that you never make additional payments in countries where that is not the norm.

One delegate described this sort of thinking as "the road to hell." Other dilemmas were raised too. Whether or not to do business in South Africa inevitably came up. Another delegate appeared to question the ethics of doing business overseas at all. "I have not heard the word 'exploitation' today. But what about the multinationals? Because we in this country want things as cheaply as possible, other people have to suffer abroad," he said.

Some pointed out that moral dilemmas can occur closer to home, too. What should businesses, particularly small businesses, do about employees and contractors who demand payment in cash, they asked.

Neville Cooper, the institute's chairman, told the conference that none of these problems would be solved "by getting a code on paper, however good." Each company would have to come up with a code of ethics to deal with its own circumstances. The institute could conduct research into best practice in this area and examine the codes which already exist.

Sir Geoffrey Chandler added that it was not enough for such codes to be drawn up. There had to be the will to make them part of the organisation's culture. "You cannot tack it on like a bad cadenza," he said.

But unless companies addressed the ethics issue, they would find it increasingly difficult to attract young recruits. His work with Industry Year had taught him that "younger people have an idealism that no generation has had before."

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

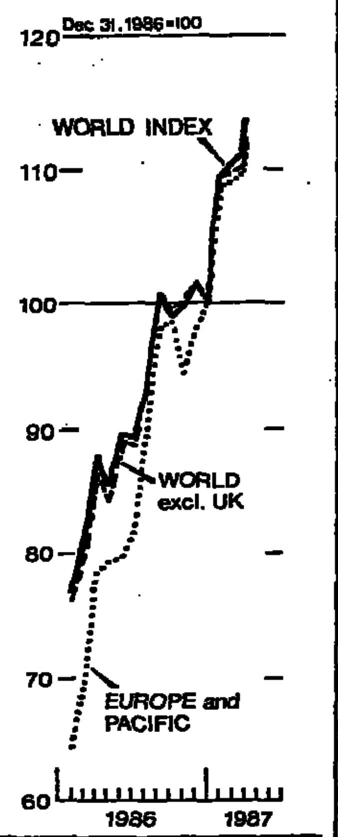
Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	THURSDAY MARCH 26 1987					DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	1986/87 High	1986/87 Low	Year ago
Australia (94)	121.24	+0.9	111.93	115.92	2.97	121.24	70.18	85.24
Austria (16)	93.44	−0.2	86.27	88.72	1.75	101.62	70.60	76.88
Belgium (47)	117.52	−0.5	108.49	110.27	4.17	118.92	53.75	71.99
Canada (132)	133.25	−0.4	123.02	126.26	2.20	134.35	86.58	96.48
Denmark (39)	115.00	+1.7	106.17	107.57	2.32	124.10	87.87	99.21
France (121)	120.79	+0.3	111.51	115.25	2.26	120.79	57.72	81.21
West Germany (99)	89.43	+2.1	82.56	84.96	2.12	100.33	74.48	82.37
Hong Kong (45)	110.20	−1.7	101.74	110.40	2.87	114.71	62.87	65.94
Ireland (14)	130.68	+0.1	120.65	126.12	3.37	130.68	62.33	83.26
Italy (76)	102.56	−0.5	94.68	99.80	1.52	108.30	46.07	74.29
Japan (458)	127.80	+0.5	117.99	120.45	0.54	127.80	49.46	65.92
Malaysia (35)	133.11	−0.4	122.88	129.24	2.94	135.38	66.67	77.50
Mexico (14)	142.91	−2.4	131.93	173.20	1.17	146.47	43.00	58.62
Netherland (38)	112.69	+0.6	104.03	106.16	4.18	113.51	74.14	81.86
New Zealand (27)	96.26	−0.8	88.87	90.55	3.00	100.59	47.37	60.09
Norway (25)	126.90	−0.1	117.15	118.50	1.94	127.09	90.02	101.96
Singapore (27)	122.51	+0.2	113.10	120.96	3.08	122.51	55.94	59.44
South Africa (61)	164.57	+1.2	151.93	107.40	3.61	164.57	69.06	103.01
Spain (43)	110.04	−0.1	101.59	107.38	3.80	121.31	45.00	73.50
Sweden (33)	114.75	+0.2	105.94	108.30	2.22	114.75	63.35	82.25
Switzerland (52)	96.68	−0.3	89.26	91.50	1.85	104.06	69.01	76.89
United Kingdom (342)	132.34	−0.3	122.17	122.17	3.47	133.88	75.39	97.12
USA (580)	123.77	+0.2	114.26	123.77	2.93	124.06	85.46	99.65
Europe (945)	114.46	+0.2	105.67	107.52	2.90	114.57	69.36	86.32
Pacific Basin (686)	126.85	+0.4	117.11	119.84	0.70	126.85	51.10	66.56
Euro–Pacific (1631)	121.92	+0.3	112.55	114.91	1.53	121.92	58.45	74.34
North America (712)	124.27	+0.1	114.73	123.91	2.89	124.60	85.61	99.48
World Ex. US (1838)	122.80	+0.3	113.37	115.30	1.58	122.80	60.02	75.43
World Ex. UK (2076)	122.30	+0.3	112.91	118.28	1.97	122.30	69.65	83.81
World Ex. So. Af. (2357)	122.92	+0.3	113.48	118.69	2.10	122.92	69.95	84.83
World Ex. Japan (1960)	120.99	+0.1	111.70	117.69	2.90	121.08	79.87	94.04
The World Index (2418)	123.18	+0.3	113.72	118.62	2.11	123.18	70.14	84.94

Base values: Dec 31, 1986 = 100

Latest indices not available for this edition

FT-ACTUARIES WORLD INDICES



EUROPEAN OPTIONS EXCHANGE

Series		May 87 Vol.	May 87 Last	Aug 87 Vol.	Aug 87 Last	Nov 87 Vol.	Nov 87 Last	Stock
GOLD C	$400	701	25	1259	35A	4	43.50	$417
GOLD C	$420	737	11	1567	22.90	16	29	"
GOLD C	$440	164	4.80	39	13.50	265	20.50	"
GOLD C	$460	30	2.20	52	7.50	—	—	"
GOLD C	$480	3	0.50	—	—	—	—	"
GOLD P	$360	—	—	90	1	—	—	"
GOLD P	$390	131	1.90	20	4.90	—	—	"
GOLD P	$400	200	3	221	7	—	—	"
GOLD P	$420	190	9	—	—	102	15	"
		Jun 87		Sep 87		Dec 87		
SILVER C	$600	—	—	10	35	—	—	$608
SILVER C	$700	15	10	—	—	10	20	"
£/FI C	FI.320	55	11A	—	—	—	—	FI.330.38
£/FI C	FI.325	—	—	3	8.50A	—	—	"
£/FI C	FI.330	—	—	50	6	—	—	"
		Apr 87		May 87		Jun 87		
$/FI C	FI.205	49	2.80	27	3.40	22	3.90	FI.205.82
$/FI C	FI.210	53	0.90	43	1.50	512	2.30B	"
$/FI C	FI.215	—	—	—	—	49	1	"
$/FI P	FI.195	59	0.20	—	—	—	—	"
$/FI P	FI.200	—	—	11	1.20	10	1.80	"
$/FI P	FI.205	11	1.90	7	2.60B	15	3.70	"
$/FI P	FI.210	7	5	—	—	—	—	"
		Sep 87		Dec 87		Mar 88		
$/FI C	FI.205	—	—	5	7.20	—	—	FI.205.82
$/FI C	FI.210	500	3.70	—	—	—	—	"
$/FI C	FI.215	3	2.50	—	—	—	—	"
$/FI C	FI.220	3	1.40	5	2.50	—	—	"
$/FI C	FI.235	—	—	20	0.60	—	—	"
$/FI P	FI.190	1	1.15	6	2.50	—	—	"
$/FI P	FI.195	2	2	—	—	—	—	"
$/FI P	FI.200	24	3.80	4	5.60	2	7.10	"
$/FI P	FI.205	523	6.10	14	7.80	—	—	"

		Apr 87 Vol.	Apr 87 Last	Jul 87 Vol.	Jul 87 Last	Oct 87 Vol.	Oct 87 Last	Stock
ABN C	FI.520	506	10.50	111	19.60	12	26B	FI.521
ABN P	FI.500	290	3.50	45	13	10	20.50	"
AEGON C	FI.90	299	2	213	4	62	5.20	FI.89
AEGON P	FI.85	3	1	68	3	—	—	"
AHOLD C	FI.110	47	2.20	58	6	33	7.50	FI.109.10
AHOLD P	FI.110	62	2.50B	6	6.10	—	—	"
AKZO C	FI.150	668	1.90	528	4.30	50	7	FI.145
AKZO P	FI.150	14	6.50	203	12	—	—	"
AMEV C	FI.70	178	18	68	2.40	42	3.30	FI.66.30
AMEV P	FI.60	14	0.50	—	—	23	2.50	"
AMRO C	FI.80	230	3.10	51	5.50	9	6.60	FI.81.70
AMRO P	FI.80	175	2	37	3.50	—	—	"
ELSEVIER C	FI.250	31	5	18	13.50	—	—	FI.249.50
ELSEVIER P	FI.250	34	7.50	10	12.70	—	—	"
GIST-BROC. C	FI.45	115	0.80	129	2	62	3.50	FI.43.50
GIST-BROC. P	FI.40	195	0.40	17	1.90	25	3	"
HEINEKEN C	FI.180	73	2	79	5.40	11	6.80	FI.173
HEINEKEN P	FI.170	106	2.60	39	6	—	—	"
HOOGOVENS C	FI.35	276	2.20	43	3.70	2	5	FI.34
HOOGOVENS P	FI.35	1037	3.20	235	4.20B	78	5.40A	"
KLM C	FI.45	44	0.30	297	1	49	1.80	FI.39.60
KLM P	FI.40	125	1.20	73	2.40	205	3.80	"
NED. LLYOD C	FI.180	86	2.50	39	4.90	—	—	FI.174
NED. LLYOD P	FI.160	23	1.70	6	5.50	2	7	"
NAT. NED C	FI.75	210	2	344	4	93	4.60	FI.73.80
NAT. NED. P	FI.75	10	3A	40	4.70	135	5.20	"
PHILIPS C	FI.50	911	1.20	381	2.90	169	4.30	FI.50.10
PHILIPS P	FI.45	60	0.30	90	1.10	—	—	"
ROYAL DUTCH C	FI.230	623	19	452	19.50	128	20	FI.248.10
ROYAL DUTCH P	FI.240	276	2.50	186	8.60	183	12.80	"
ROBECO C	FI.100	—	—	3	3.10	—	—	FI.102.70
ROBECO P	FI.105	25	4.50	—	—	—	—	"
UNILEVER C	FI.580	922	11	427	20	113	28.10	FI.583.80
UNILEVER P	FI.580	222	10	111	22.50	25	26	"

TOTAL VOLUME IN CONTRACTS: 48,311

A=Ask B=Bid C=Call P=Put

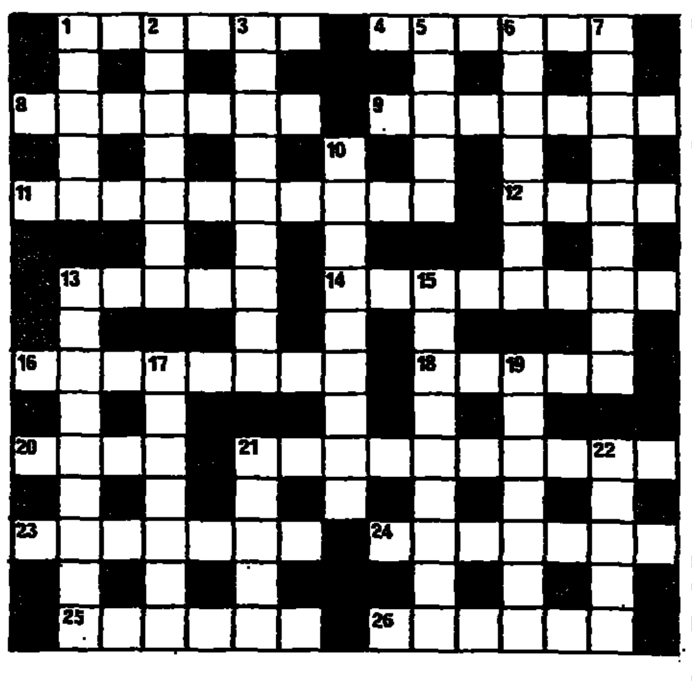
BASE LENDING RATES

	%		%		%
ABN Bank	10	● Charterhouse Bank	10	● Morgan Grenfell	10
Adam & Company	10	Citibank NA	10	Mnt Credit Corp. Ltd.	10½
Allied Arab Bk Ltd	10	Citibank Savings	¶12.45	Nat Bk. of Kuwait	10
Allied Dunbar & Co	10	City Merchants Bank	10	National Girobank	10
Allied Irish Bank	10	Clydesdale Bank	10	Nat Westminster	10
American Exp. Bk	10	Comm. Bk. N. East	10	Northern Bank Ltd	10
Amro Bank	10	Consolidated Cred	10	† Norwich Gen. Trust	10
Henry Ansbacher	10	Co-operative Bank	*10	PK Finans. Intl (UK)	10½
ANZ Banking Group	10	Cyprus Popular Bk	10	Provincial Trust Ltd	12
Associates Cap Corp	11	Duncan Lawrie	10	R. Raphael & Sons	10
Authority & Co Ltd	10½	E. T. Trust	12	Roxburghe G'rantee	10½
Banco de Bilbao	10	Equator'l Tst C'p plc	10	Royal Bk of Scotland	10
Bank Hapoalim	10	Exeter Trust Ltd	10½	Royal Trust Bank	10
Bank Leumi (UK)	10	Financial & Gen. Sec	10	Standard Chartered	10
Bank Credit & Comm	10	First Nat. Fin. Corp	11½	Trustee Savings Bnk	10
Bank of Cyprus	10	First Nat. Sec. Ltd	11½	UDT Mortgage Exp.	¶12.25
Bank of Ireland	10	● Robert Fleming & Co	10	United Bk of Kuwait	10
Bank of India	10	Robert Fraser & Ptrs	11½	United Mizrahi Bank	10
Bank of Scotland	10	Grindlays Bank	‡10	Unity Trust PLC	9½
Banque Belge Ltd	10	● Guinness Mahon	10	Westpac B'nking Corp	10
Barclays Bank	10	HFC Trust & Savings	10	Whiteaway Laidlaw	10½
Benchmark Tst Ltd	10	● Hambro Bank	10	Yorkshire Bank	10
Beneficial Trust Ltd	11½	Heritable & Gen. Tst	10		
Berliner Bank AG	10	● Hill Samuel	§10		
Brit. Bk. of Mid. East	10	C. Hoare & Co	10		
Brown Shipley	10	Hongkong & Shangh'	10		
Business Mortgage Tst	10	Lloyds Bank	10		
CL Bank Nederland	10	Mase Westpac Ltd	10		
Canada Permanent	10	Meghraj & Sons Ltd	10		
Cayzer Ltd	10	Midland Bank	10		

● Members of the Accepting Houses Committee. * 7-day deposits 5.35%. Savewise 8.03%. Top Tier—£2,500+ at 3 months' notice 9.38%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 5¾% gross. ¶ Mortgage base rate. § Demand deposit 5.35%. Mortgage 12¼%.

FT CROSSWORD PUZZLE No. 6,290

TANTALUS



ACROSS

1 Spam makes a comeback! (6)
4 Rank condition (6)
8 *Leading players in "Eastenders" looked drunk* (3-4)
9 Box and beat Laconian (7)
11 *Completely nude* (10)
12 King of Scotland lost his head and became greedy (4)
13 Wiseacre does at least hold set of beliefs (5)
14 With child, it's significant (8)
16 Soldier to manoeuvre (8)
18 A good man—hesitate to be seen *in* bed! (5)
20 Private, by the way, gets the point (4)
21 Payment for seat with males going to junction (10)
23 Albert and I arranged to be poised (7)
24 Bears witness war-time women accept exam (7)
25 Backward native takes in foolish wanderers (6)
26 Warmed up for this argument? (6)

DOWN

1 Companion not well with a cold (5)
2 *A heartless wife a few find frightening* (7)
3 . . . consequently, at that place a warning cry (9)
5 One invariably 8 (5)
6 Ground to soak up water (7)
7 The rations ordered—not for shopkeeper (9)
10 Scott's sea-robber (3, 6)
13 State pre-requisite (9)
15 Oriental girl shoulder-high (9)
17 Termini re-designed by edicts of German Emperor (7)
19 *Settled back, then annoying* person causes a storm (7)
21 Chew dates and feel full (5)
22 Returning in crowd, Etonian becomes famous (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

	Bid Price	Offer Price	+ or −	Yield Gross

Abbey Unit Tst. Mngrs. (a)
80 Holdenhurst Rd, Bournemouth 0345 717373

Bridge Fund Managers (a)(c)
20, Copthall Avenue, London, EC2R 7PA. 01-588 6064.

Britannia Unit Trust Managers Ltd—see MIM Britannia Unit Trust Managers Ltd

Brown Shipley & Co Ltd (a)(g)
9-17 Perrymount Rd, Haywards Hth 0444 412261/3/4/5

F & C Unit Management
1 Laurence Pountney Hill, EC4R 0BA 01-623 4680

FS Investment Managers Ltd
190 West George St, Glasgow 041-332 6462

Henderson Administration (a) (b) (c)
Admin, 5 Rayleigh Road, Hutton, Brentwood, Essex
Enquiries 0277 227300 Dealing 0277 217238

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FT UNIT TRUST INFORMATION SERVICE

MGM Unit Managers Ltd
MGM House, Heene Rd, Worthing 01-623 8211

High Inc.	279.2	297.0	+1.5	5.10
(Accum Units)	337.7	359.4	+2.3	5.10
UK Growth	343.2	364.0	+1.1	2.60
(Accum Units)	362.4	385.5	+1.1	2.60

MLA Unit Trust Management
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 674751

MLA Gen. Tst.	41.1	43.5	+0.5	1.74
MLA Income Trust	55.5	58.8xd	+0.9	3.88
MLA Int.	62.0	65.7xd	+1.0	0.82
MLA Gilt Unit Tst.	24.7	26.1xd	+0.1	10.00
MLA European Trust	34.7	36.7xd	+0.5	0.49
MLA American Tst.	28.1	29.7	+0.2	0.84

ManuLife Management Ltd
St George's Way, Stevenage 0438 356101

Gilt&Fxd Int.	119.5	123.7xd	—	7.03
Growth Units	99.2	105.6	—	2.55
High Income Unit	138.6	147.3xd	—	3.84
High Yielding Gilt Uts	60.8	62.9	—	8.06
Intl Growth Unit Tst.	153.1	162.7	—	0.33
UK Smaller Cos.	107.6	114.3	—	1.6
North American	85.8	91.2	—	0.36
Far East	119.4	126.9	—	0.02

Mayflower Management Co Ltd
No. 1 London Bridge, London, SE1 9QU 01-378 7000

Income March 30	310.5	330.3xd	+11.4	3.38
General March 30	244.2	259.8xd	+4.6	1.89
International March 30	153.6	163.9xd	+2.5	0.65
Global Inc. Fd March 30	49.6	52.0xd	—	5.15

Mencap Unit Trust Mngrs Ltd (a)(c)(g)
Unicorn Hse, 252 Romford Rd, E7 01-534 5544

Mencap	174.0	184.1	+0.9	3.98

Mercury Fund Managers Ltd
33 King William St, EC4R 9AS 01-280 2060

Perpetual Unit Trust Mngmt. (a)
48 Hart Street, Henley on Thames 0491 576868

International Growth	314.1	335.3	+2.4	0.96
Income	239.5	255.1	+3.0	3.70
Worldwide Recovery	172.1	183.7	+1.10	1.61
American Growth	78.4	83.7	−0.1	0.87
Intl. Emerging Cos.	96.2	102.8	+0.9	0.71
Far East Growth Fd.	96.0	102.6	+0.09	0.77
European Growth Fd.	64.3	68.7	+0.80	1.03

Prolific Unit Trust Managers Limited.
222 Bishopsgate, London EC2 01-247 7544

Prolific American Inc.	60.7	64.6	+0.1	3.73
Prolific C'vert & Gilt	116.2	123.7	+0.3	4.84
Prolific Euro Gth&In	51.2	54.5	+0.4	2.66
Prolific Extra Inc.	117.0	124.9xd	+0.9	3.58
Prolific Far East	202.2	216.3xd	+3.0	—
Prolific High Inc.	80.4	86.0	+0.6	3.39
Prolific Intl	145.1	154.4	+0.8	0.31
Prolific N. Amer.	141.0	150.9	—	—
Prolific Spec. Sits	95.8	102.0	+0.6	0.90
Prolific Technology	143.0	153.0	+1.0	—

Providence Capital Fd. Mgrs. Ltd
30 Uxbridge Road, London W12 8PG 01-749 9111

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate, London, EC2R 6BA. 01-588 3963

PM Equity Growth	96.4	102.6xd	−0.1	0.70
PM Income and Growth	86.4	92.0xd	—	3.45
PM N American Growth	55.7	59.3	−0.5	0.32
PM European Growth	47.2	50.2	+0.1	0.68
PM Japan Growth	59.3	63.0	+1.0	0.03
PM Overseas Growth	53.0	56.3	−0.2	0.21

Prudential Unit Trust Mngrs Ltd (a) (b) (c)
51-69 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

M & G Group

[illegible]

MGM Assurance

[illegible]

Manufacturers Life Insurance Co (UK)

[illegible]

Merchant Investors Assurance

[illegible]

Municipal Life Assurance Ltd

[illegible]

NEL Britannia Assce Co Ltd

[illegible]

NEL Pensions Ltd

[illegible]

NM Schroder Life Assurance Ltd

[illegible]

National Mutual Life

[illegible]

National Mutual of Australasia

[illegible]

National Provident Institution

[illegible]

Norwich Union Asset Management Ltd

[illegible]

Norwich Union Life Insurance Soc.

[illegible]

Pearl Assurance (Unit Funds) Ltd

[illegible]

Phoenix Assurance Co Ltd

[illegible]

Pioneer Mutual Insurance Co Ltd

[illegible]

Premium Life Assurance Co Ltd

[illegible]

Property Equity & Life Ass. Co

[illegible]

Property Growth Assur Co Ltd

[illegible]

Providence Capital Life Assc. Co Ltd

[illegible]

Provident Life Assoc Ltd

[illegible]

Provident Mutual Life Assc. Assn.

[illegible]

Provincial Life Assurance Co Ltd

[illegible]

Prudential Assurance Co

[illegible]

Prudential Pensions Limited

[illegible]

Regency Life Assurance Co Ltd

[illegible]

Reliance Mutual

[illegible]

Royal Heritage Life Assurance Co Ltd

[illegible]

Royal Life Insurance Ltd

[illegible]

Save & Prosper Group

[illegible]

Scottish Amicable Investments

[illegible]

Scottish Equitable Life Assce. Soc.

[illegible]

Scottish Life Investments

[illegible]

Scottish Mutual Assurance Society

[illegible]

Scottish Mutual Investments

[illegible]

Scottish Provident Institution

[illegible]

Scottish Widows' Group

[illegible]

Shield Assurance Ltd

[illegible]

Skandia Life Assurance Co Ltd

[illegible]

Standard Life Assurance Company

[illegible]

Sun Alliance Insurance Group

[illegible]

Sun Life of Canada (UK) Ltd

[illegible]

Sun Life Unit Assurance Ltd

[illegible]

Swiss Life Pensions Ltd

[illegible]

TSB Life Ltd

[illegible]

Target Life Assurance Co. Ltd

[illegible]

Teachers' Assurance Company Ltd

[illegible]

Transatlantic Life Assur Co Ltd

[illegible]

Trident Life Assurance Co Ltd

[illegible]

UK Life Assurance Co Ltd

[illegible]

UK Provident

[illegible]

Vanbrugh Life Assurance

[illegible]

Vanbrugh Pension Limited

[illegible]

Welfare Insurance

[illegible]

Windsor Life Assur Co Ltd

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

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FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
1 Nov 1 May	Funding 6½pc 85-87	99¾xd	25.9	6.52	9.43
12Dec 12Jne	Treas. 10pc 1987	100	18.12	10.00	9.78
14Jan 14Jly	Treas 3pc 1987	[illegible]	8.12	3.04	7.61
3May 3Nov	Treas. 12pc 1987	[illegible]xd	29.9	11.80	9.09
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	[illegible]	22.12	7.81	8.73
10Nov 10May	Exch 10½pc '88	[illegible]	6.10	10.35	9.11
14Dec 14Jne	Treas 9¾pc Cv '88	[illegible]	18.12	9.68	9.10
1Jan 1Jul	Transport 3pc '78-88	[illegible]	25.11	3.14	6.68
25 Apr 25 Oct	Treas. 9½pc '88	[illegible]xd	18.9	9.44	9.05
22 Aug 22 Feb	Treas 11½pc 1989	[illegible]	16.1	11.04	9.03
18 Oct 18 Apr	Treas 9½pc Cnv 1989	[illegible]xd	11.9	9.43	9.10
15Nov 15May	Treas 3pc 1989	[illegible]	9.10	3.24	6.78
14Dec 14Jun	Treas 10½pc 1989	[illegible]	18.12	10.22	9.11
1Feb 1Aug	Exch.10pc 1989	[illegible]	29.12	9.83	9.07
29 Mar 29 Sep	Exch 11pc 1989	[illegible]	26.8	10.55	9.03
15 Apr 15 Oct	Treas 5pc 1986-89	[illegible]xd	8.9	5.33	7.73
15 May 15 Nov	Exch 10½pcCv '89	[illegible]	9.10	9.77	8.11
15 Jul 15 Jan	Treas 13pc 1990‡‡	[illegible]	9.12	11.82	8.87
12 Aug 12 Feb	Exch 11pc 1990‡‡	[illegible]	6.1	10.46	8.93
22 Sep 22 Mar	Exch. 12½pc 1990	[illegible]	18.8	11.45	8.91
8 Nov 8 May	Treas. 3pc 1990	[illegible]	2.10	3.34	6.70
15 Dec 15 Jun	Treas 8¼pc 1987-90‡‡	[illegible]	18.12	8.39	8.60
25 Apr 25 Oct	Treas. 10pcCv 1990	[illegible]xd	18.9	9.70	8.97
22 May 22 Nov	Exch 2½pc 1990	[illegible]	16.10	2.87	6.55
10 July 10 Jan	Treas 11¾pc 1991	[illegible]	8.12	10.82	9.02
5Oct 5Apr	Funding 5¾pc '87-91‡‡	[illegible]xd	1.9	6.15	7.63
13 Nov 13 May	Treas. 3pc 1991	[illegible]	—	3.46	6.71
12Jan 12July	Treas 10pc Cv '91	[illegible]	8.12	10.24	7.95
25Apr 25Oct	Exch. 11pc 1991	[illegible]xd	18.9	11.11	8.99
22Jly 22Jan	Treas 12¾pc 1992‡‡	[illegible]	16.12	9.62	8.91
21Aug 21Feb	Treas 10pc 1992	[illegible]	15.1	9.99	8.97

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

Interest Due	Stock	(b)	Price	Last xd	(1)	(2)
30 Sep 30 Mar	Treas. 2pc '88	(297.1)	129¼xd	26.8	—	2.08
25 Jul 25 Jan	Do. 2pc '90	(333.9)	114[illegible]	19.12	1.28	2.28
23Sep 23Mar	Do. 2pc '92‡‡	(385.8)	96[illegible]	—	2.22	2.77
16Mar 16Sep	Do. 2pc '96	(267.9)	127[illegible]	11.8	3.02	3.41
24Mar 24Sep	Do 2½pc '01	(308.8)	110[illegible]	18.8	3.23	3.50
20Nov 20May	Do. 2½pc '03	(310.7)	109[illegible]	14.10	3.20	3.45
19Jan 19Jly	Do. 2pc '06	(274.1)	112[illegible]	15.12	3.21	3.41
20Nov 20May	Do. 2½pc '09	(310.7)	107[illegible]	14.10	3.18	3.37
23Feb 23Aug	Do. 2½pc '11	(294.1)	119[illegible]	19.1	3.17	3.32
16Feb 16Aug	Do. 2½pc '13	(351.9)	94[illegible]	12.1	3.12	3.28
26Jan 26Jly	Do. 2½pc '16	(322.0)	103	22.12	3.14	3.24
16Oct 16Apr	Do. 2½pc '20	(327.3)	101¼xd	9.9	3.08	3.21
17Jan 17July	Do. 2½pc '24 ‡‡	(385.3)	86	—	3.04	3.16

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for July 1986: 97.5 and for February 1987: 100.4 (rebased at 100 January 1987).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

FOREIGN BONDS & RAILS—Contd

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

NOTES

LONDON SHARE SERVICE

AMERICANS—Continued

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Ma Je Se Dec	TRW Inc. $1¼	64¾xd	10.2	$3.20	—	3.2
Mr Ja Sp Dc	Tenneco $5	30⅞	4.11	$3.04	—	6.5
June Dec	Do. 10pc Ln.Stk. 91-6	£104½xd	24.11	10%	—	[illegible]
Mr Je Se De	Texaco $6.25	29¾xd	31.7	$3.00	—	8.3
Mr Je Se De	Time Inc. $1	54¾	22.8	$1.00	—	1.2
Ja Ap Jy Oc	Tracor $0.33	12¾	16.9	36c	—	1.8
Ja Ap Ju Oc	Transamerica $1	21⅞	14.1	$1.76	—	5.3
Fe My Au No	Transworld Corp $5	10¾	11.11	20c	—	1.2
—	Trinova Corp.	41¼	—	$1.40	—	2.2
Mr Je Se De	♦USX $1	17½	30.10	$1.20	—	4.4
Ag Nv Fb Ja	Union Carbide $1	18½	4.11	$1.50	—	5.4
Mr Jn Sp Dc	Utd. Technologies	32¼	16.2	$1.40	—	2.8
Fb My Ag No	US West‖	34⅞	21.10	k$3.04	—	5.7
Mr Je Se De	♦Woolworth $3½	31¾	19.11	$1.12	—	2.3

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
—	♦Abbot Energy Corp.	21½p	—	—	—	—
—	♦Amer. Barrick Res.	19	—	—	—	—
—	Armeno	81p	—	—	—	—
Fb My Ag Nv	Bk. Montreal‖	19	24.11	$2.00	—	5.0
Ja Ap Ju Oc	Bk. Nova Scot.‖	911p	12.1	72c	—	3.8
Ap Jy Oc Ja	BCE‖	28¼	10.9	$2.40	—	5.6
May Nov	♦Bow Valley‖	929p	15.12	10c	—	0.5
Ja Ap Jy Oc	♦Brascan‖	19¼	28.10	86c	—	2.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

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LONDON SHARE SERVICE

INSURANCES—Continued

LEISURE

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING—Continued

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Cont.

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

FINANCE, LAND—Cont.

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Continued

Tins

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
	—	Anglo-Dominion	97½	—	—	—	—
	—	♥Colby Res Corp	32	—	—	—	—
Aug.	Feb.	Cons. March. 10c	£17⅞	12.1	n060c	4.4	9.9
—		♥Eastmaque Gold Mines	2¼	—	—	—	—
	—	♥Ennex Int. Ir10p	39	—	—	—	—
	—	Greenwich Res	248	—	—	—	—
	—	♥Highwood Res	208	—	—	—	—
Fb Jun Ag Nv		Homestake Mining $1	£19¼	29.1	Q20c	—	0.7
—		♥McFinley Red Lake	310	—	—	—	—
	—	♥Musto Explorations	114	—	—	—	—
	—	♥New Sabina Res C$1	85½	—	—	—	—
—		Northgate C$1	441	9/77	—	—	—
Jan.	July	RTZ	814	27.10	22.0	2.4	3.8
Jan	July	Do. 9½pcLn '95-2000	£164¾	27.10	Q9½%	15.5	5.9

THIRD MARKET

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
—	Abelscot Group 10p	245	—	3.2	—	1.8	—
—	Aberdeen Am Pet 10p	33	—	—	—	—	—
	Allied Ins. Brokers	113	—	13.5	2.5	4.4	13.1
—	Catalyst Comm. 5p	47	—	—	—	—	—
—	Corton Beach 10p	62	—	—	—	—	30.8
—	Edenspring Investment	160	—	—	—	—	94.9
—	Eglinton Oil Ir.5p	34	—	—	—	—	—
—	Do. Warrants	20	—	—	—	—	—
—	Publishing Hldgs 5p	29	—	—	—	—	16.8
—	Theme Holdings	49	—	—	—	—	24.8
—	Unit Group	115	—	R4.6	2.5	5.6	(8.2)

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ∥ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	74	......	Fin. 13% 97/02	£106¼	+1¼
Craig & Rose £1	£15¼	......	Arnotts	350	......
Finlay Pkg. 5p	69	......	CPI Hldgs	65xd	......
Holt (Jos) 25p	905	+5	Carroll Inds.	130	......
IoM Stm. £1	93	......	Dublin Gas	11	......
			Hall (R. & H.)	112	−2
IRISH			Helton Hldgs.	32	+1
Fund 11¾% 1988	£98½	+½	Irish Ropes	175	......
Nat. 9¾% 84/89	£94⅝	+¼	Unidare	421xd	+32

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	35	NEI	8
Amstrad	16	Nat West Bk	55
BAT	47	P & O Dfd	55
BOC Grp.	42	Plessey	20
BSR	12	Polly Peck	28
BTR	30	Racal Elect	20
Babcock	19	RHM	30
Barclays	47	Rank Org Ord	55
Beecham	48	Reed Intnl	42
Blue Circle	62	STC	20
Boots	25	Sears	12
Bowaters	37	TI	55
Brit Aerospace	58	TSB	8
Brit. Telecom	20	Tesco	42
Burton Ord	23	Thorn EMI	50
Cadburys	22	Trust Houses	20
Charter Cons.	30	Turner Newall	24
Comm Union	29	Unilever	150
Courtaulds	35	Vickers	55
FNFC	28	Wellcome	50
Gen Accident	80	**Property**	
GEC	18	Brit Land	17
Glaxo	110	Land Securities	30
Grand Met	40	MEPC	32
GUS 'A'	100	Peachey	30
Guardian	85	**Oils**	
GKN	30	BOM	3½
Hanson Tst.	15	Brit Petroleum	60
Hawker Sidd	50	Burmah Oil	38
ICI	80	Charterhall	4
Jaguar	52	Premier	4
Ladbroke	40	Shell	75
Legal & Gen	25	Tricentrol	11
Lex Service	35	Ultramar	17
Lloyds Bank	48	**Mines**	
Lucas Inds.	55		
Marks & Spencer	18	Cons Gold	65
Midland Bk	55	Lonrho	24
Morgan Grenfell	35	Rio T Zinc	65

A selection of Options traded is given on the London Stock Exchange Report Page.

DIARY DATES

Trade fairs and exhibitions: UK

April 2-8
British International Antiques Fair (021-780 4171)
NEC, Birmingham

April 6
International Construction Equipment Public Works and Municipal Services Exhibition and Conference (01-637 2400)
NEC, Birmingham

April 16-18
International Electro-Optics and Laser Exhibition (01-940 3777)
Tokyo

April 22-28
International Computer & Office Automation Exhibiton—KIECO (01-439 0501)
Seoul

April 25-30
International Wire and Cable Production and Wire Products Exhibition—WIRE ASIA (08833 7755)
Beijing

April 8-9
Better Made in Britain 5: Clothing, Knitwear and Footwear; 6: Building Components and DIY (01-211 7158)
Kensington Exhibition Centre

April 14-16
International Trenchless Construction for Utilities—Conference and Exhibition (0923 778311)
Kensington Exhibition Centre

April 14-16
International Book Fair (01-940 6065)
Olympia

April 17-18
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall

April 24-26
Atari Computer Show (061-456 8835)
Novotel

April 26-May 4
London International Furniture Show (01-385 1200)
Earls Court

April 26-28
International Confectionery Market Exhibition — INTERCONFEX (01-661 4900)
NEC, Birmingham

April 27-30
Audio Visual Exhibition (01-888 7788)
Wembley Conference Centre

April 29-30
London Engineering Design Show (0895 58431)
Sandown Exhibition Centre

May 1-13
Northern Ideal Home Exhibition (0602 501202)
G-mex Centre, Manchester

May 2-4
Photographic Exhibition (01-661 4900)
NEC, Birmingham

May 7-9
Scottish Freight Transport and Distribution Exhibition Conference (01-642 7688)
Aviemore Centre

Overseas

April 1-4
Wire Tokyo '87 (07072 75641)
Tokyo

April 3-9
International Chemical and Petrochemical Industry Exhibition (01-486 1951)
Beijing

April 9-12
International Toy Fair—SPIEL (01-977 4551)
Vienna

May 5-9
International Footwear and Leather Goods Show (01-379 0765)
Taipei

May 6-10
International Contract Floor Coverings Exhibition (01-734 0343)
Frankfurt

Business and Management Conferences

March 31
NEDC/FT Conferences: Enterprise, success and jobs—company success (01-621 1355).
Queen Elizabeth II Conference Centre, SW1

April 1
The Institute for Fiscal Studies: The 1987 Budget (01-636 3784)
Park Court Hotel, W2

April 1
Longman Seminars: Merger accounting—financial reporting issues (01-242 4111)
Cavendish Conference Centre, W1

April 1
The Association of Corporate Treasurers: Modern financial instruments—their practical use (01-631 1991) Hilton Hotel, W1

April 2-4
The Rural Life Conference—action with communities (01-636 4066)
Royal Agricultural College, Cirencester

April 6
International Business Communications: 6th annual television planning and buying seminar *(01-238 4080) Marriott Hotel, W8*

April 8-9
FT Conferences: Technology in the securities market—the next five years (01-621 1355)
Hotel Inter-Continental, W1

April 9-10
Institute for International Research: Selling personal financial services within the new regulatory framework (01-434 0301) Park Lane Hotel, W1

April 9-10
Frost and Sullivan: Project management for data processing *operations (01-730 3438)*
Sullivan House, SW1

April 9
CBI: EFTPOS—the payment card revolution (01-379 7400)
Centre Point, WC1

April 11
The Chartered Institute of Management Accountants: Going for growth (0234 272222)
Northampton

April 23-24
Yorkshire Conference Services: UK Budget tax (0423 879437)
Harrogate

April 24
CBI: Making and using sales forecasts (01-379 7400)
Centre Point, WC1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Parliament

TODAY

Commons: Second readings of the Landlord and Tenant (No 2) Bill, the Fire and Safety of Places of Sport Bill, and the Pilotage Bill.

Lords: Billiards (Abolition of Restrictions) Bill, third reading. Abolition of Domestic Rates (Scotland) Bill, committee.

Select committees: Treasury and Civil Service — subject: the Budget. Witness: Rt Hon Nigel Lawson, Chancellor of the Exchequer (Room 8, 2.15 pm). Public Accounts — subject: individual training in the armed services. Witness: Sir Clive Whitmore, MoD (Room 16, 4.45 pm).

TOMORROW

Commons: Progress of remaining stages of the Criminal Justice Bill.

Lords: Abolition of Domestic Rates (Scotland) Bill, committee. Motions on legal aid regulations.

Select committees: Education Science and Arts — subject: special educational needs. Witnesses: Society of Education Officers; National Association of Advisory Officers in Special Education (Room 15, 10.40 am). Transport — subject: decline in the UK registered merchant fleet. Witnesses: BOSVA; Shell UK; BP (Room 17. 4.15 pm). Parliamentary *Commissioner for Administration* — subject: reports of the PCA for 1986. Witnesses: The Lord Chancellor and officials from his department. (Room 8, 4.30 pm). Committee on a private Bill — Bexley London Borough Council (Room 6. 11 am).

WEDNESDAY

Commons: Completion of the remaining stages of the Criminal Justice Bill.

Lords: *Debate on the state of the National Health Service.* Unstarred question on the need for major road works between Hastings and Hythe.

Select committees: Welsh Affairs — Subject: the condition and repair of privately-owned housing. Witnesses: Ferndale Home Improvement Centre; Newport Borough *Council. (Room 18, 10.30 am).* Trade and Industry — subject: motor components industry. Witnesses: BBA Group; Pilkington Glass. (Room 15, 10.45 am). Public Accounts—subject: Trustee Savings Bank rights of Ownership. Witness: Sir Peter Middleton, Treasury (Room 16, 4.15 pm). Transport — subject: decline in the UK registered merchant fleet. Witnesses: Mr G. Bonwick; Mr Michael Grey (Room 17, 4.15 pm). Joint Committee *Consolidations* Bills —subject: Housing (Scotland) Bill. Witnesses: Mr W. C. Galbraith, draftsman, Scottish Law Commission; Mr J. A. *Stewart,* formerly divisional solicitor, Scottish Office; Mr J. S. B. Martin, Assistant Secretary, Scottish Development Department (Room 4, 4.45 pm). Committee on Private Bill — Bexley London Borough Bill (Room 6, 10.30 am).

THURSDAY

Commons: *Motions on supplementary* and social security benefit orders and regulations. Motion for the Easter adjournment.

Lords: Abolition of Domestic Rates (Scotland) Bill, committee. Broadcasting Bill, consideration of Commons amendments.

Select committee: Committee on a Private Bill: Bexley London Borough Bill (Room 6, 10.30 am).

FRIDAY

Commons: Private members' bills.

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Chester Waterworks, Aqua House, 45, Boughton, Chester, 12.30
Fleming Claverhouse Inv Trust, 25, Copthall Avenue, EC, 2.15
Greenfriar Investment, 28 Finsbury Square, EC, 2.30

BOARD MEETINGS—
Finals:
Acorn Computer
Amari
Bipel
Blackwood Hodge
Boosted
British Syphon Inds
CCA Galleries
Campari Intnl
Dwek Grp
EBC
Emess Lighting
Ests and Gen Invs
Executex Clothes
Halstead (James)
Manders
Plasmec
Richardsons Westgarth
Rugby Portland Cement
Slough Ests
London and Edinburgh Tst
London and Scottish Marine Oil
Martin (Albert)
NMW Computers
Peek Hldgs
Quick (H. and J.)
Scottish Heritable Tst
Senior Eng
Telfos
Wilson (Connolly)
Worcester Grp
Interims:
Old Court Intnl Reserves
UDO
AB Elec Prods
Bezzer (C. H.)
Maxiprint

DIVIDEND & INTEREST PAYMENTS—
Bank of Montreal Fltg Rate Nts 1994 £143.36
Bankers Trust Overseas Finance NV Gtd Fltg Rate Sub Nts 1994 $17.54
Barton 6pcPf 2.1p
Chester Waterworks 4.2pc 2.1p. 3.15pcPf 1.575p. 3.85pcRedPf 1983-88 1.925p
Kleinwort Benson Finance BV Gtd Fltg Rate Nts 1996 $315.97
Microsystems 1.5p
Milk Marketing Board Fltg Rate Nts £142.98
St Davids Inv Tst 2.5p
Scottish Agric Sec 10¼pcDb 1989-91 5⅛pc
Simmer and Jack Mines 25cts
TSB 1.065p
Treasury 2pcIL 1996 1pc
Wells Fargo Fltg Rate Sub Cap Nts 1997 $169.05
Yeoman Inv Tst 3.3p
AE 8pcLn 1989-94 4pc
Aaronson Bros, 525RedPf 2625p, 425pc RedPf 2125p
Alexander and Alexander Services, 25cts, C 1863p
Alliance Property 7¼pc1stDb 1986-91 3⅝p
Allied London Properties 8½pcLn 1999 4¼pc
Allied-Lyons 7pcRedDb 1982-87 3½pc
Allnatt London Properties 6¾pc1stDb 1986-89 3⅜pc, 9¼1stDb 1996-2001 4⅝pc
Anglo Nordic Hldgs 10pcLn 1989-92 5pc
Anglo United 0.71p
Argyle Securities 10½pcDb 1992-97 5¼pc, 12pcDb 1993-98 6pc
Ashton Bros 4½pc1stDb 2¼pc. 6½pcDb 3¼pc
Asscd British Engineering 4.9pcPf 2.45p. 8pcPf 4p
Asscd Paper Inds 3.85pcPf 1.925p
Atlantic Metropolitan (UK) 12pcLn 1991-1997 6pc
Audax Properties 11pcDb 2021 4.4633p
Automotive Products 3.5pcPf 1.75p. 4.55pc2ndPf 2.275p. 9pcPf 4.5p
BPB Inds 7¼pcDb 1986-91 3⅝pc. 10¼pc Db 1994-99 5⅛pc. 10¼pcDb 1997-2002 5⅛pc
BSS 10¼pcDb 1998-2003 5⅛pc
Barrow Hepburn 7.75pcPf 3.875p
Bass 4pcPf 1.4p. 7pcPf 2.45p. 3¼pcDb 1987-92 1.625pc. 8¼pcDb 1987-92 4.125pc. 8.65pcDb 1987-89 4.325pc. 10.65pcDb 1996-99 5.325pc. 4½pcLn 1992-97 2.25pc. 7¾pcLn 1992-97 3.875pc
Bass Invests 6pcLn 1985-90 3pc. 7¼pcLn 1992-97 3⅝pc
Beecham 8½pcLn 1984-94 4¼pc
Bemrose 7½pcPf 2.625p
Benlox 8pcPf 4p
Berisford (S. and W.) 5pcPf 1.75p. 7½pc Pf 2.625p
Birmid Qualcast 7¼pcLn 1987-92 3⅝pc
Blackwood Hodge 7½pcPf 2.625p
Blue Circle Inds 5½pcPf 1.925p. 5¼pcDb 1984-2009 2⅝pc
Boddington 4pcDb 2pc
Boot (Henry) 4.2pcPf 2.1p
Boots 7½pcLn 1988-93 3¾pc
Boscombe Property 5pc1stPf 1.75p
Bowater Inds 4.35pcPf 2.175p
Bowthorpe 8pcb 1988-93 4pc
Bowyers (Wiltshire) 6¾pcb 1985-90 3⅜pc
Braid 9pcDb 1986-91 4½pc
Braithwaite 7½pcPf 2.625p
Bridon 7pcPfd 1.225p
Bristol and West Hotels 7¼pc1stDb 1987-1992 3⅝pc
Bristol Evening Post 1991-96 5½pc
British-American Tobacco 5pcPf 1.75p
British Amer Tobacco Invest 10pcLn 1990-1995 5pc. 10½pcLn 1990-95 5¼pc
British Assets Trust 4½pcPf 1.575p. 5pcAPf 1.75p. 6pcULS 1995 3pc
British Benzol 13pcLn 1995 6½pc
British Car Auction 5pcPf 1.75p
British Land 15pc1stb 1987 7½pc. 10½pc 1stDb 2019-24 5¼pc
British Vita 7¼pcDb 1987-92 3⅝pc
Brixton *Estate* 11.75pc1stDb 2018 5.875pc
Brown Boveri Kent 6pcDb 1988-93 3pc. 7¼pcDb 1988-93 3⅝pc. 8pcLn 1988-93 4pc
Brown (John) 5⅝pcLn 2003 2⅞pc. 4⅞pLn 2003 2⅞pc
Brown Shipley 5¾pcLn 1990-95 2.875pc
Buckley's Brewery 5½pcPf 1.925p
Burtonwood Brewery 8½pcDb 1989-94 4¼pc
Cable and Wireless 2.05p
Caister Gp 7½pcDb 1987-92 3¾pc
Caledonia Invests 5pcAPf 1.75p. Do B 1.75p.
Calor 7pcDb 1985-90 3½pc
Cameron (J. W.) 6¾pcDb 1988-93 3⅜pc
Capital and Counties 6¼pc1stDb 1993-98 3⅛pc. 6¼pc1stb 1994-99 3⅛pc
Carclo Engineering 5.95pcPf 2.975p

TOMORROW

COMPANY MEETINGS—
Aaronson Bros, Savoy Hotel, WC, 12.00
Birmid Qualcast, Albany Hotel, Birmingham, 12.00
Crescent Japan Inv Trust, 4, Melville Crescent, Edinburgh, 12.30
General Cons Inv Trust, 9 Upper Belgrave Street, SW, 12.30
Leda Inv Trust, 3 Finsbury Square, EC, 12.15
McAlpine (Alfred), Abbots Well Hotel, Whitchurch Road, Chester, 12.15
New Tokyo Inv Trust, 4 Melville Crescent, Edinburgh, 12.15
Tendring Hundred Waterworks, Institute of Directors, 116 Pall Mall, SW, 12.00
Wrexham and East Denb Water, 21 Egerton Street, Wrexham, 2.00

BOARD MEETINGS—
Finals:
Anglo-Eastern Plantations
Arcolectric
Baillie Gifford Technology
Blockleys
BPCC
Bunzl
Christies Intnl
Combd English Stores
Debfor
Evans Halshaw
Gaskell Broadloom
Geest
Grampian Hldgs
IMI
Jove Invs

Land Secs. 6¼pc1stDb 1993-98 3⅛pc. 9pc1stDb 1996-2001 4½pc. 10pc1stDb 2025 5pc. 6⅞pcLn. 1992-97 3pc. 8½pc Ln. 1992-97 4¼pc.
Laporte Inds. 7½pcPf. (£1) 2.625p
Laporte Inds. 5½pc2ndPf. 1.925p. 5¼pc 2ndPf. 2⅝pc. 8pcDb 1993-98 4pc. 10¼pc Db. 1994-99 5⅛pc
Law Land 7½pc1stDb 1986-91 3¾pc
Lee (Arthur) (Hot Rolling Mills) 4½pc1st Db. 1974-89 2¼pc
Leigh Interests 6pcPf 3p
Lindustries 6½pcDb 1984-89 3¼pc

[illegible]

Watney Mann Truman 5pcDb 2000 2½pc. 7¼pcDb 1988-91 ... 1993 3⅞pc. 10½pcDb 1990-95 5¼pc. 12pcDb 2008 6¼pc
Watsham's 1.35p
Watson (R. Kelvin) 10.5pcPf 5.25p
Webb (Joseph) 7½pcPf 2.625p. 8pcDb 1985-90 4pc
Wells Fargo Fltg Rate Sub Nts 1992 $57
Westland 6pcDb 1983-88 3pc. 12⅝pcDb 2008 6⅜pc. 7¾pcDb 1987-92 3⅞pc
Whitbread 4½pcDb 1999-2004 2¼pc
Whitbread Investment 5¾pcDb 1984-89

[illegible]

Pennzoil O'seas Finance NV 15¼pcDb (1/4/90) 7⅝pc
Piccadilly Radio N-vtg (5p) 1.125p
Polly Peck Intnl 9pcLn 03-08 4½pc
Port of London Authority 3¾pc 49-99 3⅞pc
Portsmouth Wtr 7¾pcPf 1987 3.875pc. 8¼pcPf 1996 2.65pc
Portsmouth Wtr 2.1pc (Fmly 3pc) Pf 1.05p
Queens Moat Houses 10¾pc1stDb 2020 5⅜pc
RHP 7pcPf 2.45p
Redemption 3pc 86-96 1½pc

[illegible]

Investors in Industry 7¼pcADb 1991-94 3.625pc. Do. 9pcADb 1991-94 4.5pc
Irish Glass 7¼pcLn. 1986-91 3⅝pc
Italy (Rep. of) 1994 (Br.) $56.67
Johnson and Firth Brown 11.05pcPf. 5.525p. 11pcLn. 1993-98 6.42c
Jbnston Grp. 10pcPf. 5p
Keep Tst. 4.9pcPf. 2.45p.
Kellock Tst. Ln. 1987-88 6.5445
Kelsey Inds. 11¼pcPf. 5.625p
Kent (GB) 5pcPf. 2.1875p
Keystone Invsts. 5pcPf. 1.75p
Korea First Bank 1989 $188.58

United Glass 7¼pc1stDb 1987-90 3⅝pc
VSEL Consortium 11pcLn 1998 5½pc
Vantona Viyella 4.55pcPf (£1) 2.275p. 5.6pcPf (£1) 2.8p
Vinten Group 1.05p
Walker (Alfred) 6½pcCnvPf (Temp. Susp) 0.75p
Warner Estate Hldgs 6½pcLn 1991-96 3¼pc
Warner Holidays 6¼pcPf 2.1875p
Wassall (J. W.) Pf 2.625p

Morgan Crucible 3.85pc1stPf 1.925p. 3.5pc2ndPf 1.75p
Morton Sundour Fabrics 5pc1stPf 1.75p
National Home Loans 8¼pcLn 2005 4.08699pc
Newcastle Gateshead Wtr 7pcPf 94-96 3½pc
North Surrey Wtr 3.15pcPf 1.575p. 3.5pc Pf 1.75p. 3.85pcPf 1.925p. 7pcPf 1988 3.5p
North Surrey Wtr 4.2pcPf 2.1p. 5.425pc Pf 86-88 2.7125p
Pacific Gas Electric Finance NV 15¼pc Db 1989 7⅝pc
Peninsular Oriental Steam 5pcPfd 1.75p

DIVIDEND & INTEREST PAYMENTS—
Agricultural Mortgage 6pcDb 3pc
Annuities 2¾pc 1pc
Annuities 2½pc 1.25pc
Bradford Property Trust 10½pcPf 5.25pc. 7pcLn 1992-97 3½pc
Cement-Roadstone 7pcAPf 2.275p
Consolidated 2½pc 1¼pc
Funding 3½pc 1987-91 2⅛pc
M & G Australasian and Gen Fund Inc 0.33p
Metropolitan Water West Middlesex Water Works 3pcDb 1½pc
Treasury 3pc 1½pc
Treasury 6pc 2002/06 4pc

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will *not necessarily be at the amounts in the column headed* "Announcement last year."

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip *issue since made.* ¶ *Forecast*

	Date	Announcement last year
*AMEC	Apr 1	Final 7.0
*Abbey Life	Apr 1	Final 4.7
*Assoc British Ports	Apr 9	Final 6.75
BCI	Apr 29	Final 15.0
*BPCC	Mar 31	Final 8.0
*BSG Intl	Apr 2	Final due
*Bank of Scotland	Apr 22	Final 8.5
Bowater	Apr 15	Final 5.5
*Brixton Est	Apr 8	Final 3.35
*Bunzl	Mar 31	Final 5.75
Burmah Oil	Apr 10	Final 8.25
*Burton	Apr 2	Interim 1.6
*Cookson	Apr 2	Final 5.35
Costain	Apr 30	Final due
Evered	Apr 10	Final 2.25
F. R. Group	Apr 30	Final 2.5
*GRE	Apr 1	Final 19.75
*Glaxo	Apr 13	Interim 4.0
*Hall (M.)	Apr 8	Final 3.0
*Hammerson *Property*	*Apr 9*	*Final 7.5*
*Hawker Siddeley	Apr 16	Final 10.0
Helical Bar	May 1	Final due
Inchcape	Apr 28	Final 11.0
*Kwik Save	Apr 23	Interim 1.8
Laporte	Apr 17	Final 5.65
**Laing (J.)*	*Apr 2*	*Final 5.0*
*Lond Scottish Marine Oil	Mar 31	Final 7.7
Mowlem (J.)	Apr 10	Final 10.0
*RMC	Apr 14	Final 9.4
*Reckitt and Colman	Apr 2	Final 10.0
*Rio Tinto *Zinc*	*Apr 8*	*Final 15.0*
*Rugby Portland Cement	Mar 30	Final 3.5
*Scottish Heritable	Mar 31	Final 1.6
*Slough Estates	Mar 30	Final 3.3
Smith Inds	Apr 9	Interim 1.75
*Sun Alliance	Apr 1	Interim 1.75
Tarmac	Apr 29	Final 11.75
Tate and Lyle	Apr 31	Final 7.2
*Taylor Woodrow	Apr 14	Final 13.25
*Tesco	Apr 29	Final 3.7
Tootal	Apr 29	Final 2.5
Travis and Arnold	Apr 21	Final 6.57
*Weir Group	Apr 2	Final 2.125
Wellcome	May 1	Interim due
*Wimpey (G.)	Apr 9	Final 2.9

هكذا من الأصل

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

NORWAY

SWEDEN

SWITZERLAND

GERMANY

FRANCE

SINGAPORE

SOUTH AFRICA

AUSTRALIA

HONG KONG

ITALY

JAPAN

NETHERLANDS

SPAIN

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO
Closing prices March 27

MONTREAL
Closing prices March 27

OVER-THE-COUNTER
Nasdaq national market, closing prices, March 27

Continued from Page 37

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Borg - Warner	2,731,400	44¼	+3⅞
Cons Rail Cp	4,459,700	30⅝	—
Standard Oil	2,915,800	70½	−⅞
Hanson Trust	2,291,100	13⅞	+⅛
Harnischf	2,001,300	17⅞	+½
Phillips Pet	1,906,600	16	+¼
IBM	1,754,000	150¾	−3¾
I C Indus	1,743,100	31⅝	+1⅞
Nat Semiondctr	1,577,300	14⅝	−⅛
Sunsh Mine	1,576,700	6	+1

** Saturday March 21: Japan Nikkei (c). TSE (c).

Base value of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrials—264.3, and Australia, All Ordinary and Metals—500; NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

Closing prices, March 27

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
33	20⅞	AAR s	.50	1.5	23	494	u33⅝	33¼	33¾	+¼
37	21⅞	ADT	.92	2.6	20	403	35¾	35⅛	35¼	−½
41½	23⅝	AFG	.12e	.3	11	601	39	38⅛	38½	−⅝
40¼	16¾	AGS			22	157	37	36¾	36¾	−¼
14⅞	6¾	AMCA				103	9¼	9	9⅛	+¼
9⅜	4⅞	AM Int				784	8⅞	8⅝	8¾	−⅛
62⅛	47¼	AMR			12	3850	55½	53⅝	53⅞	−1⅝
12⅞	8	ARX s			13	77	11	10½	10⅞	+¼
62¼	28¾	ASA	2a	3.2		3881	u62½	60	61¾	+4⅝
17⅛	9¾	AVX		1.9		398	17	16¾	16¾	−⅛
32¾	26½	AZP	2.72	8.6	10	887	31⅞	31½	31¾	−⅛
67	38⅝	AbtLb s	1	1.6	27	6402	65⅝	61¾	61¾	−3¾
34	25	AccoWd .62		2.0	20	274	31½	31⅛	31¼	
14⅛	9	AcmeC .40		3.1	24	172	12⅞	12½	12¾	+⅛
8⅝	6⅛	AcmeE .32b		4.1	27	27	7⅞	7⅞	7⅞	−⅛
23⅞	16¾	AdaEx 3.43e		15.		82	22⅝	22⅝	22⅝	−¼
19½	11⅝	AdmM s .24		1.3	15	38	19	18¾	19	
21½	12⅛	AdvSys .52t		2.5	16	44	21⅛	21	21⅛	+⅛
31½	12⅞	AMD				5744	20⅛	19¾	19⅞	+¼
10⅝	5¼	Adobe				367	u10⅝	10	10⅝	+⅜
20½	13¾	Adob pf 1.84		9.1		14	20⅝	20⅛	20¼	−⅛
21⅞	16⅝	Adob pf 2.40		11.		7	21⅜	21	21⅜	+⅜
18⅝	11½	Advest .12a		.9	11	146	13⅞	13½	13½	−¼
68¼	53	AetnLf 2.76		4.3	10	5310	68¼	64	64⅝	−2
50¾	21⅞	AflPb s .32		.7	25	1147	48	45¼	45¾	−1⅝
28¾	18⅞	Ahmnss .88		3.5	8	4636	25¼	24½	24⅞	
5¾	2⅞	Aileen				915	5¼	4⅝	4⅞	+⅛
48½	28⅛	AirPrd s .80		[illegible]	[illegible]	1343	48½	45	45⅛	−1⅛
35¼	16	AirbFrt .60		1.8	15	135	33⅝	33⅛	33¼	−⅛

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

AMEX COMPOSITE CLOSING PRICES

Closing prices March 27

OVER-THE-COUNTER

Nasdaq national market, closing prices, March 27

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

Continued on Page 35

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Mice threaten to overrun Japan's cat

by Colin Millham

DEALERS BEGAN to question the strength of the Paris currency agreement last week. There has been a reluctance to put downward pressure on the dollar since finance ministers from six of the major industrial nations met in Paris last month, for fear of provoking the big cats, in the shape of the central banks. But last week it appeared there was only one cat with any claws and he was finding no friends among the others.

This gave encouragement for the mice to come out and play again. The cat with claws was the Bank of Japan, but some frantic action last week threatened to blunt his effectiveness, and the rest of the group were only prepared to give token support.

Japan has several problems. Firstly, when the Group of Five agreement was signed in New York in September 1985 the market was not prepared to argue that the dollar was overvalued. This time it is not convinced about the justification for the Group of Six Paris accord.

There is therefore much more likelihood the market will challenge the Paris agreement, and especially if the central banks do not appear to be whole hearted in their commitment to stabilise the foreign exchanges.

Secondly, Japan maintains a very large trade surplus, while the US has so far failed to reduce its even large trade deficit, in spite of 18 months of a steadily weakening dollar.

The Japanese trade surplus in February rose to \$8.14bn from \$5.70bn in January. Exports rose to \$16.74bn from \$14.65bn, and imports fell to \$8.61bn from \$8.94bn.

Mellon Bank pointed out that the trade surplus was the largest for February on record, and also noted that Japanese exports for car components to South East Asia jumped sharply, and that many of the cars produced will find their way to the US.

Thirdly, there is the question of restrictive trading practices, causing growing friction between Japan and the western industrial community.

Mrs Margaret Thatcher, the Prime Minister, admitted in the Commons last week she had received no reply to the letter sent to the Japanese Prime Minister, supporting the Cable and Wireless attempt to enter the Japanese telecommunications market.

Japan's efforts to keep foreign competition out of its telecommunications market also caused concern in Washington, where it was suggested President Reagan, weakened by the arms for Iran scandal, would be forced to retaliate.

The Senate voted for such action, as growing trade tension increased fears of a trade war involving the US and Europe against Japan.

But in this context it must be noted the West German trade surplus rose to DM 10.4bn in February, from DM 7.2bn in January.

US officials have denied there is any target range for the dollar, and last week Mr David Mulford, US Assistant Treasury Secretary, criticised both West Germany and Japan for not carrying out their international responsibilities.

Tomorrow is the end of the financial year. There was already a trend to square books before the pressure built up on the dollar last week. In spite of this, and buying of dollars for yen by the Group of Six central banks, the dollar fell to a record low against the yen.

A new financial year will mean increased market volume and probably further pressure on the dollar. The present mood indicates that the Japanese cat is likely to overrun with a plague of mice.

£ IN NEW YORK

Mar 27	Close	Previous Close
£ Spot	1.6080-1.6090	1.6010-1.6020
1 month	0.46-0.45 pm	0.48-0.47 pm
3 months	1.31-1.28 pm	1.28-1.25 pm
12 months	4.25-4.15 pm	4.10-4.00 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Mar. 27	Previous
8.30 am	72.1	72.0
9.00 am	72.0	71.9
10.00 am	72.0	71.9
11.00 am	72.0	71.8
Noon	71.9	72.1
1.00 pm	72.0	72.2
2.00 pm	71.9	72.2
3.00 pm	71.8	72.2
4.00 pm	71.9	72.1

CURRENCY MOVEMENTS

March 27	Bank of England Index	Morgan Guaranty Changes %
Sterling	71.9	−22.0
U.S. Dollar	102.1	−5.2
Canadian Dollar	79.5	−8.8
Austrian Schilling	137.9	+10.2
Belgian Franc	100.3	−4.3
Danish Krone	93.0	+3.6
Deutsche Mark	146.9	+21.6
Swiss Franc	171.9	+22.0
Guilder	134.5	+14.2
French Franc	71.7	−12.6
Lira	48.0	−16.8
Yen	216.3	+61.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

CURRENCY RATES

Mar. 27	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.796194	0.709077
U.S. Dollar	5.5	1.27830	1.13807
Canadian $	7.54	*	1.48632
Austrian Sch.	4	16.3838	14.5900
Belgian Franc	8	48.2523	42.9905
Danish Krone	7	8.77993	7.82194
Deutsche Mark	3.0	N/A	2.07606
Neth. Guilder	4½	2.63008	2.34340
French Franc	9½	7.75155	6.90808
Italian Lira	12	N/A	1478.92
Japanese Yen	2½	190.337	168.491
Norway Krone	8	8.77930	7.80658
Spanish Peseta	—	163.902	145.900
Swedish Krona	7½	8.13504	7.23470
Swiss Franc	3.5	1.94236	1.72929
Greek Drach.	20½	171.099	152.365
Irish Punt	—	N/A	0.777104

*C$/SDR rate for Mar. 26; 1.66721

OTHER CURRENCIES

Mar. 27	£	$
Argentina	2.4615-2.4725	1.5350-1.5410
Australia	2.2945-2.2975	1.4320-1.4330
Brazil	34.3375-34.5305	21.4140-21.5210
Finland	7.1755-7.1900	4.4670-4.4690
Greece	212.89-216.22	132.72-134.97
Hong Kong	12.5100-12.5200	7.7985-7.8005
Iran	115.70*	72.00*
Korea (Sth)	1353.10-1365.30	844.80-852.60
Kuwait	0.43440-0.44620	0.27050-0.27400
Luxembourg	60.40-60.50	37.65-37.75
Malaysia	4.0320-4.0420	2.5160-2.5180
Mexico	1769.00-1786.15	1103.00-1113.00
N. Zealand	2.8320-2.8395	1.7675-1.7710
Saudi Ar.	6.0130-6.0185	3.7500-3.7510
Singapore	3.4240-3.4330	2.1370-2.1390
S. Af. (Cm)	3.2880-3.3045	2.0365-2.0410
S. Af. (Fn)	4.7115-4.9000	2.9630-3.0535
Taiwan	54.80-55.05	34.25-34.35
U.A.E.	5.8890-5.8940	3.6725-3.6735

*Selling rate.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.6030	1.5984	1.5902	1.5790	1.5608
D-mark	2.9225	2.9079	2.8809	2.8458	2.7784
French Fr.	9.7250	9.7092	9.6869	9.6526	9.6128
Swiss Fr.	2.4350	2.4236	2.4005	2.3681	2.3109
Yen	236.75	235.70	233.56	230.60	225.06

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu March 27	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.9905	+1.25	+0.85	± 1.5344
Danish Krone	7.85212	7.82194	−0.38	−0.78	± 1.6404
German D-Mark	2.05853	2.07606	+0.85	+0.45	± 1.0981
French Franc	6.90403	6.90808	+0.06	−0.34	± 1.3674
Dutch Guilder	2.31943	2.34340	+1.03	−0.63	± 1.5012
Irish Punt	0.768411	0.777104	+1.13	+0.73	± 1.6684
Italian Lira	1483.58	1478.92	−0.31	−0.31	± 4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Mar. 27	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.603	2.923	236.8	9.725	2.435	3.303	2082.	2.092	60.45
$	0.624	1.	1.823	147.7	6.067	1.519	2.060	1299.	1.305	37.71
DM	0.342	0.549	1.	81.01	3.328	0.833	1.130	712.2	0.716	20.68
YEN	4.224	6.771	12.34	1000.	41.08	10.29	13.95	8792.	8.837	255.3
F Fr.	1.028	1.648	3.005	243.4	10	2.504	3.396	2140.	2.151	62.16
S Fr.	0.411	0.658	1.200	97.23	3.994	1.	1.356	854.8	0.859	24.83
H Fl.	0.303	0.485	0.885	71.69	2.945	0.737	1.	630.3	0.634	18.30
Lira	0.480	0.770	1.404	113.7	4.672	1.170	1.587	1000.	1.005	29.04
C $	0.478	0.766	1.397	113.2	4.648	1.164	1.578	994.9	1.	28.89
B Fr.	1.654	2.652	4.835	391.6	16.09	4.028	5.463	3443.	3.461	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

Mar. 27	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	10-10⅛	10-10⅛	9⅞-10	9 13/16-9 11/16	9 9/16-9 11/16	9½-9⅝
U.S. Dollar	6-6⅛	6 7/16-6 5/16	6 5/16-6 7/16	6⅜-6½	6⅜-6½	6½-6⅝
Can. Dollar	6⅝-6⅞	6¾-6⅞	6⅝-6¾	6¾-6⅞	6¾-6⅞	6⅞-7
D. Guilder	5 3/16-5 5/16	5 3/16-5 5/16	5 3/16-5 5/16	5 3/16-5 5/16	5 3/16-5 5/16	5 3/16-5 5/16
Sw. Franc	⅝-¾	1 1/16-1½	3 13/16-4 1/16	3 13/16-3 15/16	3 13/16-3 15/16	3 13/16-3 15/16
Deutschmark	3⅝-3¾	3⅞-4	3¾-3⅞	3⅞-4	3 15/16-4 1/16	4-4⅛
Fr. Franc	7½-7⅞	7 13/16-7 15/16	7⅞-8	7 15/16-8 1/16	7 15/16-8 1/16	8 1/16-8 3/16
Italian Lire	9-10	9⅝-10⅛	9¾-10⅛	9½-10	9½-9⅞	10-10⅜
B. Fr. (Fin.)	7⅛-7⅜	7¼-7½	7¼-7½	7¼-7½	7¼-7½	7¼-7½
B. Fr. (Con.)	7-7½	7⅛-7⅝	7⅛-7⅝	7⅛-7⅝	7⅛-7⅝	7⅛-7⅝
Yen	6⅞-7	5 15/16-6 1/16	4 5/16-4 7/16	4¼-4⅜	4⅛-4¼	4 1/16-4⅛
D. Krone	9⅞-10⅛	9¾-10¼	10-10½	10-10½	9⅞-10⅜	10-10½
Asian $ (Sing.)	3-3¼	N/A	3¼-3½	3¼-3½	3½-3⅝	3¼-3⅞

Long-term Eurodollars: Two years 6¾-7 per cent; three years 7-7¼ per cent; four years 7¼-7½ per cent; five years 7½-7¾ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Mar. 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6005-1.6070	1.6025-1.6035	0.48-0.45 c pm	3.48	1.31-1.26 pm	3.21
Canada	2.0908-2.1015	2.0908-2.0937	0.55-0.46 c pm	2.90	1.51-1.35 pm	2.73
Neth'lands	3.29¾-3.30¾	3.29¾-3.30¾	1¼-1 c pm	4.09	3⅝-3¼ pm	4.16
Belgium	60.37-60.70	60.40-60.50	17-10 c pm	2.68	43-32 pm	2.48
Denmark	11.01-11.04¾	11.02¾-11.03¾	Par-⅜ ore dis	−0.41	1¼-2 dis	−0.59
Ireland	1.0915-1.0990	1.0945-1.0955	0.25-0.40 p dis	−3.56	0.75-1.00 dis	−3.20
W. Germany	2.91¾-2.93¾	2.91¾-2.92¾	1½-1⅜ pf pm	5.90	4⅛-4 pm	5.65
Portugal	224.87-226.59	224.87-225.81	62-146 c dis	−5.54	251-370 dis	−5.51
Spain	205.02-206.66	205.02-205.47	111-142 c dis	−7.40	271-323 dis	−5.79
Italy	2077½-2089¾	2081-2082	1 pm-1 lire dis	—	1pm-1 lire dis	—
Norway	10.96½-11.04	10.97½-10.98½	3¾-4⅛ ore dis	−4.03	12⅞-13¾ dis	−4.64
France	9.71¾-9.95¾	9.72-9.73	1¼-1¼c pm	1.85	4⅛-3⅞ pm	1.54
Sweden	10.16¾-10.23	10.18½-10.19½	1-1½ ore dis	−1.47	2⅞-3½ dis	−1.25
Japan	236¼-238½	236¼-237¼	1⅛-1 y pm	5.39	3¼-3 pm	5.28
Austria	20.50-20.60	20.50-20.53	9⅞-8⅝ gro pm	5.41	27-24⅝ pm	5.03
Switzerland	2.43-2.44½	2.43-2.44	1¼-1 c pm	5.54	3⅝-3¼ pm	5.65

Belgian rate is for convertible francs. Financial franc 60.60-60.70. Six-month forward dollar 2.43-2.38 c pm 12-month 4.27-4.17 c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Mar. 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6005-1.6070	1.6025-1.6035	0.48-0.45c pm	3.48	1.31-1.26pm	3.21
Ireland†	1.4610-1.4667	1.4620-1.4630	0.92-0.84c pm	7.21	2.40-2.20 pm	6.28
Canada	1.3055-1.3090	1.3060-1.3070	0.05-0.08c dis	−0.60	0.13-0.18 dis	−0.47
Netherlands	2.0550-2.0650	2.0550-2.0650	0.18-0.14c pm	0.93	0.56-0.51pm	1.04
Belgium	37.70-37.84	37.65-37.75	1-4c dis	−0.80	4-9 dis	−0.69
Denmark	6.86-6.88½	6.87¾-6.88¼	1.75-2.45ore dis	−3.67	5.80-6.50 dis	−3.58
W. Germany	1.8200-1.8255	1.8230-1.8240	0.40-0.37pf pm	2.53	1.17-1.12 pm	2.51
Portugal	140¾-141¼	140¾-141¼	80-130c dis	−8.95	270-340 dis	−8.66
Spain	128.00-128.58	128.05-128.15	115-125c dis	−11.23	290-310 dis	−9.36
Italy	1296-1301½	1298¼-1298¾	3¾-4¼lire dis	−3.69	10-12 dis	−3.39
Norway	6.84¼-6.87½	6.84¾-6.85¼	4.20-4.70ore dis	−7.78	13.80-14.30dis	−8.19
France	6.05¾-6.07½	6.06½-6.07	0.70-0.85c dis	−1.53	2.40-2.60 dis	−1.65
Sweden	6.34½-6.37¼	6.35½-6.36	2.50-2.80ore dis	−5.00	6.90-7.30dis	−4.46
Japan	147.35-149.00	147.60-147.70	0.25-0.21y pm	1.86	0.84-0.79 pm	2.20
Austria	12.80¾-12.83	12.82-12.82½	2.40-1.90gro pm	2.01	6.50-5.50 pm	1.87
Switzerland	1.5165-1.5245	1.5190-1.5200	0.30-0.25 pm	2.17	0.97-0.92 pm	2.49

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.80-37.90.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last June	Calls—Last Sept	Puts—Last June	Puts—Last Sept
112	11.57	12.07	0.01	0.19
114	9.59	10.21	0.03	0.33
116	8.01	8.41	0.09	0.53
118	6.14	7.06	0.22	1.18
120	4.36	5.44	0.44	1.56
122	3.15	4.30	1.23	2.42
124	2.05	3.27	2.13	3.39
126	1.16	2.36	3.24	4.48

Estimated volume total, Calls 3,397 Puts 758
Previous day's open int: Calls 21,887 Puts 12,326

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last June	Calls—Last Sept	Puts—Last June	Puts—Last Sept
92	8.20	7.33	0.00	0.17
94	6.21	5.52	0.01	0.36
96	4.24	4.19	0.04	1.03
98	2.39	3.01	0.19	1.49
100	1.17	2.00	0.61	2.48
102	0.30	1.16	2.10	4.00
104	0.08	0.47	3.52	5.31
106	0.02	0.26	5.46	7.10

Estimated volume total, Calls 7 Puts 36
Previous day's open int: Calls 215 Puts 244

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Apr	Calls-Last May	Puts-Last Apr	Puts-Last May
19000	20.14	—	0.09	—
19250	17.73	18.24	0.18	0.69
19500	15.38	16.06	0.33	1.01
19750	13.11	13.99	0.56	1.44
20000	10.97	12.04	0.92	1.99
20250	8.99	10.24	1.44	2.69
20500	7.20	8.60	2.15	3.55
20750	5.62	7.12	3.07	4.57

Estimated volume total, Calls 12 Puts 4
Previous day's open int: Calls 192 Puts 188

LIFFE $/£ OPTIONS

[illegible]

LONDON SE $/£ OPTIONS

[illegible]

PHILADELPHIA SE $/£ OPTIONS

[illegible]

LIFFE—EURODOLLAR OPTIONS

[illegible]

LONDON

[illegible]

CHICAGO

[illegible]

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot
1.6030

IMM—STERLING $ per £

	Close	High	Low	Prev
Mar.	1.5670	1.5700	1.5620	1.5630

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
June	1.5918	1.5950	1.5942	1.5855

Estimated volume 31 (10)
Previous day's open int 257 (257)

MONEY MARKETS

Political fears halt rate slide

THE POLITICAL factors behind recent falls in London interest rates were illustrated last week by reaction to two public opinion polls.

The Marplan and Gallup polls could be considered a disaster for the Labour Party, but were also no comfort for financial markets looking for an early general election, and the return to power of the Conservatives, with an overall majority.

A surge in the popularity of the Alliance parties led to fears of a hung parliament, creating a slightly firmer tone in rates.

UK clearing bank base lending rate 10 per cent since March 18-19

This also pushed sterling down to 71.9 from 72.2 on its exchange rate index, although the pound was little changed against the dollar.

Credit conditions on the London money market were not too difficult, and for most of the week the Bank of England absorbed the day-to-day shortages through outright purchases of bills, and on Wednesday absorbed liquidity through bill sales.

Speculation about a cut in UK bank base rates seemed to fade a little, in spite of surprisingly good February trade figures, which in different circumstances would have increased the pressure for a rate cut.

A reduction in base rates is still expected, but the market would like some reassurance on the political front. The present structure of interest rates, and yields in the gilt market, are discounting a further period of Tory rule.

FT LONDON INTERBANK FIXING

(11.00 a.m. Mar. 27) 3 months U.S. dollars		6 months U.S. dollars	
bid 6⅜	offer 6½	bid 6⅜	offer 6½

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for \$10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Mar. 27	Mar. 20		Mar. 27	Mar. 20
Bills on offer	£100m	£100m	Top accepted rate of discount	9.3456%	9.1250%
Total of applications	£372m	£544m	Average rate of discount	9.3157%	9.1104%
Total allocated	£100m	£100m	Average yield	9.54%	9.32%
Minimum accepted bid	£97.67	£97.725	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	27%	70%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	Mar. 27	change		Mar. 27	change
LONDON			**NEW YORK**		
Base rates	10	Unch'd	Prime rates	7½	Unch'd
7 day Interbank	10 1/16	−13/16	Federal Funds	6⅛	Unch'd
3-month Interbank	9¾	−⅛	3 Mth. Treasury Bills	5.80	+0.17
Treasury Bill Tender	9.3157	+0.2053	6 Mth. Treasury Bills	5.92	+0.22
Band 1 Bills	9⅞	Unch'd	3 Mth. C D	6.25	+0.05
Band 2 Bills	9 13/16	Unch'd	**FRANKFURT**		
Band 3 Bills	9¾	Unch'd	Lombard	5.0	Unch'd
Band 4 Bills	—	—	One mth. Interbank	3.90	−0.05
3 Mth. Treasury Bill	9 9/16	+3/16	Three month	3.925	−0.05
1 Mth. Bank Bills	9 13/16	+1/16	**PARIS**		
3 Mth. Bank Bills	9½	+1/16	Intervention Rate	7¾	Unch'd
TOKYO			One mth. Interbank	7⅝	Unch'd
One month Bills	3.96875	−0.125	Three month	7 11/16	Unch'd
Three month Bills	4.03125	Unch'd	**MILAN**		
BRUSSELS			One month	10⅜	+⅛
One month	7⅜	Unch'd	Three month	10⅜	−¼
Three month	7⅜	Unch'd	**DUBLIN**		
AMSTERDAM			One month	14	−¼
One month	5 13/16	+1/16	Three month	13¾	−½
Three month	5⅞	−1/16			

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

NEW YORK (4 p.m.)

		Treasury Bills and Bonds			
Prime rate	7½	One month	5.34	Three year	6.68
Broker loan rate	7¼-7½	Two month	5.54	Four year	6.82
Fed. funds	6⅛	Three month	5.81	Five year	6.90
Fed funds at intervention	6⅛	Six month	5.94	Seven year	7.12
		One year	6.12	10 year	7.32
		Two year	6.47	30 year	7.64

Mar. 27	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.50-3.60	3.85-3.95	3.85-4.00	3.85-4.00	3.90-4.05	5.0
Paris	7¾-7 13/16	7 11/16-7 13/16	7¾-7⅞	7¾-7⅞	7 13/16-7 15/16	7¾
Zurich	6⅞-7⅛	3 13/16-4 1/16	—	3 13/16-3 15/16	—	—
Amsterdam	5¼-5½	5 5/16-5⅞	—	5 3/16-5 5/16	—	—
Tokyo	3.84375	3.96875	—	4.03125	—	—
Milan	10⅝-11⅛	10⅛-10⅝	—	10⅛-10⅝	—	—
Brussels	7.50	7 3/16-7 5/16	—	7 3/16-7 5/16	—	—
Dublin	13⅝-13⅞	13⅞-14⅛	13½-13⅞	13¼-13⅞	12-12¼	—

LONDON MONEY RATES

Mar. 27	Overnight	7 days notice	Month	Three Months	Six Months	One Year
Interbank	10½-7	10 1/16-9 13/16	10-9⅞	9 13/16-9 11/16	9⅝-9½	9 9/16-9 7/16
Sterling CDs	—	—	9 13/16-9 11/16	9 11/16-9 9/16	9 11/16-9 9/16	9 9/16-9 7/16
Local Authority Deposits	10 1/16	10 1/16	9⅞	9¾	9⅝-9½	9½
Local Authority Bonds	—	—	10	9¾	9½	9½
Discount M'ket Deposits	10-7	9⅞	9⅞	9¾	—	—
Company Deposits	10⅛	10⅛	10	9 13/16	9⅝	9 9/16
Finance House Deposits	—	—	9⅞	9¾	9½	9 7/16
Treasury Bills (Buy)	—	—	9⅝	9 7/16	—	—
Bank Bills (Buy)	—	—	9 13/16	9½	9⅜	—
Fine Trade Bills (Buy)	—	—	10 1/16	10⅛	9⅝	—
Dollar CDs	—	—	6.45-6.40	6.40-6.35	6.40-6.35	6.50-6.45
SDR Linked Deposits	—	—	6⅛-5⅞	6⅛-5⅞	6⅛-5⅞	6⅛-5⅞
ECU Linked Deposits	—	—	7-6⅞	7-6⅞	7-6⅞	7⅛-7

Treasury Bills (sell); one-month 9⅝ per cent; three-months 9 7/16 per cent; Bank Bills (sell): one-month 9 13/16 per cent; three months 9⅜ per cent; Treasury Bills; Average tender rate of discount 9.3157 p.c. ECGD Fixed Finance Scheme IV reference date January 31 to February 27 (inclusive): 10.896 per cent. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 per cent from March 1, 1987: Bank Deposit Rates for sums at seven days' notice 5 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 8 per cent; one-three months 8 per cent; three-six months 8½ per cent; six-nine months 8½ per cent; nine-12 months 8½ per cent; Under £100,000 8 per cent from March 18. Deposits held under Series 5 10¼ per cent. Deposits withdrawn for cash 5 per cent.

FINANCIAL TIMES SURVEY

Australia is approaching its bicentenary in the throes of an economic crisis. **Robin Pauley,** Asia Editor, looks at the attempts of Mr Bob Hawke's Labor Government to chart its way to recovery while trying to shore up its declining general election prospects.

CONTENTS

Mr Bob Hawke, Prime Minister, faces tough political and economic conundrums

Hawke hoists the storm sail

AUSTRALIA IS down but not under. Like a crippled 12-metre racing yacht the Australian ship of state is in a sorry state, blown wildly off course by becalmed commodity prices and rapidly declining terms of trade.

The economic sails and rigging are all over the place, the navigation has been so erratic as to have almost boxed the compass and the vessel is wallowing in so much debt (A$100bn) and current account deficit (5½ per cent of GDP compared to 4 per cent in the US) that the deck is all but beneath the waves of crisis.

But the hull is sound and the potential unlimited. It is going to be a long and arduous task to pump the problems out and get properly under way again. But the signs are that the correct course may finally have been charted. The danger of sinking, very real a year ago, has receded, barring storms, accidents and violent lunges at the helm — although the question lingers: is too little being done too late?

Today's Australians are essentially paying a hard price for years of complacency and lack of forward planning. The country has suffered crises greater than the present one in both the 1930s and the 1960s and 1970s.

But reliance on the something — will — turn-up school of philosophy meant that virtually no attempt was made to deal with any of the structural dangers threatening to hole the economy below the water-line. Something always did turn up — usually a return to soaring demand and ballooning prices for commodities — gaining Australia the tag "Lucky Country."

So the country proceeded as before, paying itself more than it could afford, cocooning inefficient industries in protective tariffs, tolerating destructive work practices and ignoring the steadily declining terms of trade which spelled certain disaster sooner or later for what was virtually a single-sector economy but which remained a price taker rather than price setter in all its primary and mineral commodities.

The Australians, healthy and wealthy, appear this year to have realised the game is up. There is some worrying talk, based more on hope than evidence, that once again commodity prices will "recover because they cannot stay down for ever," but at least this time it is not being used as an excuse to do nothing in the meantime, except go to the beach and wait.

Politicians, bankers, businessmen and most importantly most of Australia's 16m citizens—except perhaps the surfing dole bludgers—appear to realise the depth of the difficulties and that the only people who can grind the winches of recovery are themselves.

There are signs of a new spirit in the country. Deregulation of most financial markets and the slow but steady reduction of trade barriers has introduced a new ethos of competition and efficiency which has even spread as far as looking for ways to break up the rigid airline monopolies, a fixed feature of Australian life.

Business is starting to look for new markets and new industries, manufacturing industry is rationalising under legislative pressure from the Government. Despite cripplingly high interest rates, new industries are starting to establish themselves and the service sector is growing. Tourism, a long-neglected source of potentially huge inflows of foreign currency, is finally being regarded seriously as a major service industry.

The difficulty in Australia is in reconciling the disastrous economic data with the way life looks. The cities in this, the world's most urbanised country, are prosperous, the shops crowded. The stock market is soaring to the sort of giddy heights which, even though it suggests a possible sudden hard landing in a number of obviously inflated sectors, also suggests a degree of investor confidence not warranted by the state of the economy.

Unemployment is relatively low at just over 8 per cent compared with most developing states. Inflation at 10 per cent is destructively high, partly because of the impact of the collapse of the Australian dollar, which has lost 40 per cent of its value against the US dollar in the past 18 months—a source of national shame and an impediment to the endemic travel-lust.

But Australia in crisis remains one of the safest, sunniest and most attractive democracies in the world and its inhabitants know it, which is half the problem.

The Labor Government, led by Mr Bob Hawke, elected in 1983 and again in 1984, started badly. They ignored the storm warnings, dashed for growth and were faced with an overheating economy, flight of confidence, collapse of the dollar and an unmanageable current account deficit in 1985-86. Last year the haul back started.

Public spending has been cut, trade union leaders have accepted real cuts in living standards and today have a sense of realism under which they accept that real wages may have to fall every half year for some years to come—even if their members are not so sure. The unearned good life of yesterday is going to take a lot of tomorrows before it is paid for.

The Treasurer, Mr Paul Keating, now appears to understand the nature of the problem and to be more determined to tackle it, whatever the cost in terms of personal and political popularity. Similar determination from Mr Hawke, a man who is obsessed with the desire to be loved by the ordinary Australian, is less evident, however.

The coming months will be crucial and will contain a number of important indications as to whether Australia is back on course, away from the drift towards the status of a "banana republic" which Mr Keating deliberately warned last year was the country's fate unless it put its energies into getting out of deep crisis rather than pretending there was not one.

First, there is the May economic statement—essentially an emergency fiscal package—in which the fiscal screw will be tightened further both to tackle the budget deficit and to assure the markets that political and general election considerations are not diluting the strength of the medicine.

This must also tackle the problem of the states' expenditure levels. While the Government has been battening down the hatches the states, it turns out, have been accelerating their spending on public services using cash gained over the years by "hollow-logging"—squirrelling cash away for future use. The federal system limits the government's central control over state expenditure but the May statement can at least cut federal contributions to the states as a compensatory claw-back.

Then there is the budget in August which will have to reassure the markets again by maintaining a tight fiscal rein.

Crucially, there is the general election, due some time between now and April 1988. One of the most serious hindrances to administering the sort of treatment Australia needs is the exceptionally short three-year maximum between elections. This makes formulation and implementation of even a medium term strategy virtually impossible, especially in a country where politics is a blood sport and where political parties usually dissipate their energies during the last year in hurling abuse at each other and sweeteners at the electorate.

The timing of the election is a conundrum for Mr Hawke. To go to the country now would capitalise on the unprecedented chaos among the opposition but elicit the accusation of cutting and running scared before the nasty May spending cuts.

To go towards the end of the year risks a thoroughly disenchanted electorate after May and August squeezes and further real cuts in wages and living standards.

To leave it until early next year risks being boxed into a loser's corner; on the other hand 1988 is bicentennial year and a visit by the Queen will be a popular distraction from the economic ills provided a rescue team from the International Monetary Fund does not tack into Botany Bay at the same time.

Whenever he goes, the issues will be the same: taxation, which all Australians seem to

Continued on page 10

In federal politics, a surprising and popular force emerges

A new bandwagon starts to roll

THERE IS a new force in Australian federal politics: Sir Johannes Bjelke-Petersen. It is not clear yet, though, whether the prime minister of the important state of Queensland represents a real wind of change or merely a passing breeze.

At 76, having been in state politics for 40 years and a state premier for nearly 20, Sir Joh has decided to enter federal politics, and may even harbour ambitions to become federal prime minister, although he has not specifically dwelt on this possibility.

A deeply religious and wealthy man who made his first money in peanut farming, he drew the following description from journalist Ms Linda Christmas in her travel book on Australia, *The Ribbon and the Ragged Square*.

"Joh despises trade unions; he hates the reputation they have given Australia through their strike record . . . he despises tariff protection which props up costly Australian manufactured goods, particularly cars. He also hates the holiday penalty which the unions have won for the hotel and catering trades, and which adds 17.5 per cent on to bills at weekends and holidays. And he believes in low taxes or no taxes at all.

"He does not believe in Australia for the Australians. He would do away with the foreign investment review board and let everyone in. As for foreign aid and the United Nations, he is not interested in either. He leans towards law and order and has both a pronounced dislike of loud mouth minorities who take to the streets and march.

"As for aborigines, Joh could talk all night on the subject."

Sir Joh's entry into federal politics began last Novemer when, against all predictions, his National Party won the state elections. In the past he had governed in coalition with the Liberal Party. He won a majority of the seats in November but not of the vote, there having been some boundary changes.

The real start of his campaign, however, was a speech in February at Wagga Wagga in New South Wales. He did not explicitly say he would run for prime minister, or at that stage even concede he would seek a seat in the federal parliament. He concentrated on slamming "those socialists" in Canberra.

By socialists he was thought to mean not only the Labor Government of Mr Bob Hawke, which by the standards of Western Europe can only be viewed as a right wing social democratic party, but also his own Liberal/National Party opposition partners. Indeed the thrust of his campaign so far seems bent on pulling out the National Party element of the federal coalition. He has called for Queensland National Party members to withdraw from the coalition (a call which they have prevaricated about) and he has tried to discredit Mr Ian Sinclair, the present head of the federal National Party.

As Sir Joh's bandwagon has started to roll he has obliged the other political parties who originally viewed his campaign as a fantasy and Sir Joh himself as a crank, to take him seriously.

In a national opinion poll, taken in the middle of February, 42 per cent of the respondents said they would vote for Mr Bob Hawke, 24 per cent said they would vote for Sir Joh if he formed a party and ran and 20 per cent said they would back Mr John Howard, the leader of the Liberal Party, as prime minister. Mr Ian Sinclair, the federal National Party leader, got 4 per cent of the vote. Two weeks before Sir Joh's vote was nil because his campaign did not exist. Over a week later towards the end of February a new poll put Sir Joh's total at 27 per cent, Mr John Howard, the same at 20 per cent, and Mr Bob Hawke, the same with 42 per cent. The smaller parties lost ground.

Sir Joh has gathered commitments from backers for A$25m in campaign funds. This in itself is unusually large. The amount spent in a general election campaign by one of the major parties is put at $14m.

He has campaigned on a platform of less government, lower taxes and the emasculation of the trade unions. As such his drive for Canberra has echoes of President Ronald Reagan in the US. He enjoys the support of a group of new entrepreneurs who have achieved wealth largely as developers in Queensland's Gold Coast and elsewhere and he has tapped a groundswell of discontent by offering populist solutions to complex problems.

His great popularity is explicable in two ways. First Australia is in the throes of economic transition as the terms of trade for its primary products deteriorate. This has meant that for most Australians, who have known prosperity and a relaxed lifestyle all their adult lives, the standard of living has fallen and will continue to fall. Many do not understand why.

In this climate someone who is perceived to have done well for his own state and is offering simple panaceas to the country's problems is likely to be seized upon as a saviour, particularly when the other parties do not seem to have any answers to the problems which do not involve painful readjustments.

Second the coalition, having ruled in one configuration or other for most of the post war period is in disarray.

Mr Andrew Peacock having lost the leadership to Mr John Howard almost by default now seemed to have decided he wants it back. Enjoying much greater personal popularity than Mr Howard, he constantly sniped at the leader, and has hinted he might go into partnership with Sir Joh if things get that far. Mr Howard, who is considered intellectually the most capable man on the opposition front bench has not really caught fire as a personality. He is lacklustre on television and does not inspire at public meetings.

Mr Howard has now dismissed Mr. Peacock from the front bench.

But more than this, the Labor Party, by moving to the right has really stolen all the Liberals clothes. In terms of policies all the Liberals seem to be offering is more of the same; tax cuts; budget cuts and new forms of taxes.

Alert to the threat of Sir Joh, the other parties and the Liberals, in particular, have been putting out a steady stream of information showing that Sir Joh is not what he seems. Queensland, it says, has the largest government, the most sprawling bureacracy and more controls than anywhere.

Policies apart, however, most party managers think that Sir Joh faces an impossible task. The National Party is a rurally based party which is not truly national in its presentation. Queensland and New South Wales between them account for 23 of its 26 representatives and senators. The remaining three come from Victoria.

To win government the coalition must win 75 seats in the House of representatives. To become prime minister the National Party leader would thus need to win 38 seats. At present the Nationals hold 21 seats compared to the Liberals 45. Thus the Nationals would need to gain a net 17 seats. This most political managers contend is an arithmetic impossibility.

"Joh would have to win these seats in urban areas. He can't even hold seats in urban areas in his own state. How do you think he is going to fare in Victoria and New South Wales." Senator Graham Richardson of the Labor Party observes.

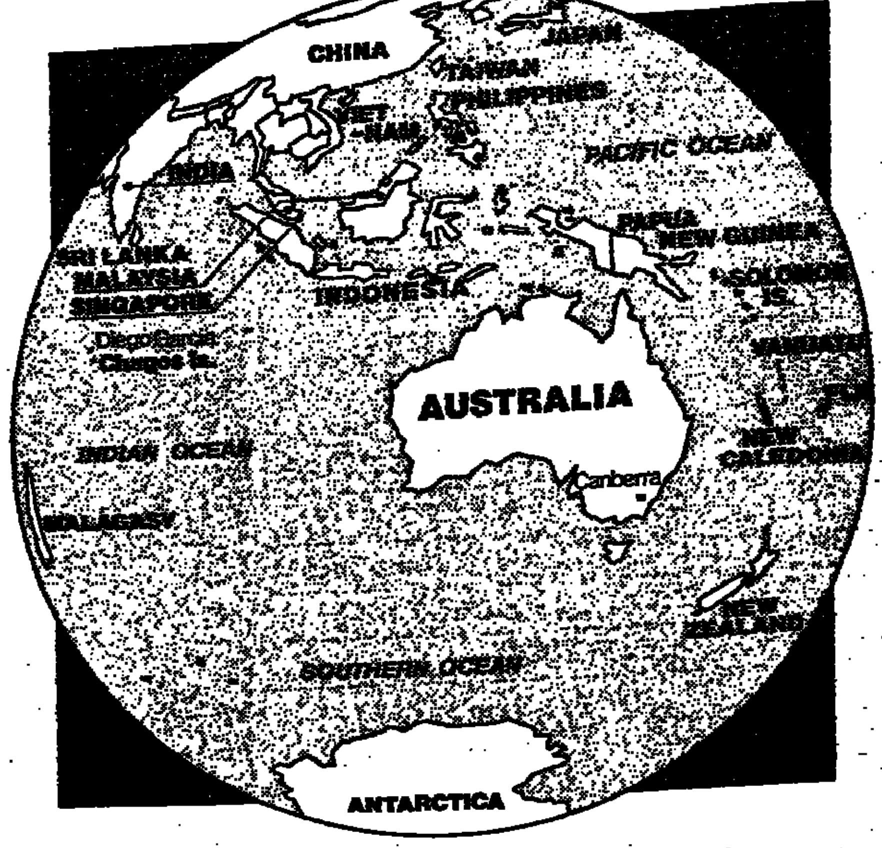
The Labor Party, meanwhile, has been watching all this with a certain amusement. For the first time in some time Labor has moved back ahead in the opinion polls. A Morgan Poll done for the Sydney magazine, the Bulletin, at the end of February, gave the Labor party 47 per cent of the vote against the coalition's 45 per cent.

If Mr Hawke survives a few more months as prime minister then he will become the longest serving Labor party prime minister. He must call an election before April 1988. Mr Hawke himself, remains consistently popular and his cabinet is reckoned to be one of the most talented ever assembled. In tough times for Australia there is a widespread concensus that its policies of financial austerity are the correct ones for the country. The government's accord with the trade unions, which has brought about real wage cuts in a heavily unionised country, are reckoned to be a remarkable achievement.

Still the Labor Party is not the natural party of government in a basically conservative country and a third straight election victory would be a record. The tough decisions the government must face in July when it presents its budget could persuade Mr Hawke to take advantage of the opposition splits and go to the country sooner rather than later. He is having relatively little trouble with his own left wing despite a controversial decision to sell uranium to France. But with only a nine seat majority in the House, the Labor Party is by no means a certainty for re-election. However, at the very least Sir Joh has injected some life into electoral considerations.

Stewart Dalby

Sir Joh Bjelke-Petersen : at 76, injecting more life into electoral issues.



Defence and regional strategies

Heightened role in the South Pacific

"KNOW YOUR Enemy" is the cardinal rule for an effective defence strategy, whether in war or peace. It is an exceptionally difficult rule to apply in Australia where a serious external threat is all but impossible to imagine. This begs the question: what is Australia supposed to be defending — and against whom?

It is widely accepted that only the US and the Soviet Union have the capability of conquering Australia — the world's only continent comprising a single country with no land borders to any other state. It is equally widely accepted that neither superpower is even remotely likely, under any circumstances outside a nuclear conflict, to attempt such a conquest.

It is a long time since an Australian Government addressed the implications of this "lucky" aspect of the Lucky Country's geopolitics, with the result that Australia has tended to follow a defence policy based on public feelings of insecurity and a belief that the country must be capable of taking its defence to the four corners of the world.

The Government's defence white paper published earlier this month, proposes to change all that. It has accepted all the substantive recommendations of last year's review, by Mr Paul Dibb, of Australia's defence capabilities, with a few minor changes and some semantic alterations made for political rather than strategic reasons. Mr Dibb's phrase "strategy of denial" has been dropped, but will nevertheless be the backbone principle governing defence policy from now on.

It is a defensive policy, downgrading the importance of attack potential and the idea of Australia developing any further substantial capabilities for defending itself off Australian territory. It allow's Australia's geography to dictate almost impossibly long lines of communications and supply on an adversary and forces any aggressor to consider the ultimate prospect of fighting on unfamilar — and generally inhospitable terrain.

Both Dibb and the Government have been sensitive to public opinion and to international commitments. Although Australia has never been invaded in its 200 years, even the Japanese concluding that it could not be taken and held, Australians are acutely aware that they have been left battling alone.

When Pearl Harbour was bombed and the British were defeated in Singapore during the Second World War, the Australians had to hold the line alone in Papua New Guinea for three months. Previous Australian commitments to alliance partners also means that it has lost its soldiers in war (in Vietnam) more recently than any

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Foreign policy

Stronger trade links sought with Japan

AUSTRALIA'S FOREIGN policy has got itself into something of a muddle in recent times. The key foreign policy issues for the country, such as international protectionism and the various tugs of influence in the South Pacific, seem to have been of less interest to the Foreign Ministry and its minister, Mr Bill Hayden, than subjects like arms control and the Middle East peace process which command the world spotlight but have less immediate relevance to Australia.

The result is that Australia, the most important country in the south Pacific region, has been late in identifying and responding to important regional foreign policy issues among the many small Pacific islands and therefore late in heading off a range of potential crises ranging from increasing Soviet economic influence in the region to the implications of the collapse of the Anzus treaty.

Mr Hayden is widely respected as a clever and authoritative politician which makes the foreign policy confusion the more surprising. One reason often advanced for his approach is the exceptionally poor state of his relationship with Mr Bob Hawke, the Prime Minister.

This makes frequent sojourns abroad more attractive to Mr Hayden than spending more time in Canberra formulating foreign policy strategy—particularly as Mr Hawke himself leads from the front on issues such as maintaining the closest and friendliest possible ties with the US and Israel and taking a firm stand against apartheid policies in South Africa.

The most obvious result of this hiatus has been that the single most important foreign policy issue in economic terms—the extent to which the European common agricultural policy and the US and Japanese protection barriers cripple exporters in countries like Australia—has mainly been handled by the Trade Department and its minister, Mr John Hawkins.

But equally important Australia, together with other states in the region, has been caught wrong-footed among the plethora of Pacific islands, small in economic importance but potentially large in strategic importance. The Soviet Union, never a slouch in spotting an area of influence, spotted the low level of economic aid meted out to the islands and started to make overtures.

Moscow started negotiating fishing agreements in the area, first with Kiribati in 1985 for an agreement which was not renewed last year and later with several other states, notably Vanuatu. These approaches are not in themselves of great significance but they sounded enough alarm bells in Canberra to spark a reappraisal of regional foreign policy.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, stressed during a brief visit to Australia earlier this month that his country's pursuit of fishing agreements in the region was purely commercial with "no bad aims or hidden intentions." But the Australians view of the notorious Soviet "trawlers," which appear all over the world covered in radio antennae, and the multiple possible uses of "port facilities," caused a new unease.

In addition, new satellite photographs published in Australia indicate that the Soviet naval base being developed at Cam Ranh Bay in Vietnam is larger and more extensive than previously believed, further stimulating Australia to demonstrate a more active interest in the area.

A recent announcement, for example, indicated that in future the South Pacific will be accorded equal priority with south east Asia in strategic defence thinking. This is not to say that there is any anxiety yet about any Soviet aggressive military aims but the combination of events has been enough to make Australia think hard, for example, about its dependency on open sea lanes for trade and the potential vulnerability of these trading routes.

Australian identity with regional interests has also set it firmly against France, with whom relations have deteriorated seriously over events essentially emanating from the continuation of nuclear testing by the French at Mururoa in the South Pacific.

Most of the Pacific islands are opposed to the nuclear tests and want the South Pacifc to be a nuclear-free zone, a policy actively supported by New Zealand where the Government's refusal to allow entry to US vessels unless they declared they had no nuclear equipment on board led to the collapse of the Anzus treaty between New Zealand, the US and Australia.

Australia is trying to hedge round this problem. It retains firm links with both New Zealand and the US, for example, while also warning New Zealand that Canberra cannot be expected to take over responsibility for the entire defence of the region. At the same time Australia has supported the concept of "Spinfiz"—the treaty in which the signatories agree in principle that the South Pacific should become a nuclear free zone.

The treaty, enthusiastically supported by New Zealand, was conceived by the Pacific Forum states. Its wording is such that signing it involves little more than making a general statement about the undesirability of nuclear war. In detail, signatories agree not to make, store or use nuclear weapons in the South Pacific.

The Australian Foreign Ministry has not attempted to disguise its disappointment that nations like the US and Britain, among others, have not signed it because of their sensitivity to France, which clearly cannot sign without giving up its nuclear test programme in the area.

Canberra's relations with France, possibly the least popular country among Pacific states at the moment, are made yet worse by the overt support by Australia for the Kanak people's independence movement in New Caledonia and for attempts to have the island recognised by the UN as a territory to be decolonised.

French fury at Australia's stance culminated with the Australian consular general in New Caledonia being declared *persona non grata* earlier this year and France banning all ministerial and official contacts between the two countries.

While Australia would prefer to remain on good relations with countries like France and feels historically closer to Europe and the West than to Asia, these sort of incidents are doing the country a great deal of good in the Pacific where Australia is increasingly being seen as a strong and active insider rather than outsider nation.

Nevertheless, despite growing affinities with the Pacific and Asian regions some local suspicions about Australia remain, largely based on its identification as an essentially white westernised society at odds with the values of some of its neighbouring cultures.

Relations with Indonesia are poor, having been soured further last year in a row last year over reports in the free Australian press which were critical of the Indonesian president. Australians are slightly distrustful of Indonesia's intentions in the area and although Indonesia is not a credible threat to Australia's security people living in the north of the continent are acutely aware that they are much nearer Indonesia than they are to Sydney.

Nevertheless, south-east and north-east Asia are clearly the major trading partners of the future—and probably also the source of many of the immigrants needed to create a viable internal market in Australia, although the inevitable "Asianisation" of the country remains a delicate subject.

This raises the delicate subject of Australia's relations with Japan. Both countries are seeking stronger bilateral relations and free-spending Japanese visitors bring much needed foreign currency to Australia—although they are more welcome by many citizens as tourists than as settlers seeking retirement homes in Japanese village complexes, of which there are certain to be more in the future.

Mr Bill Hayden, Foreign Minister : widely respected as a clever and authoritative politician

Relations have not been close recently because of Japan's inpenetrable trade protection barriers but Japan's new-found interest in expanding its sphere of influence into the pacific to counter Soviet ambitions requires Australia to join and support in a common bilateral foreign policy, Japan working from the north and Australia from the south. A trade off might mean the Japanese finally opening the door slightly to allow Australian exporters into Japanese markets.

Whether Mr Hawkins or Mr Hayden takes centre stage in this debate in coming months will indicate more than anything whether the Australian foreign ministry is really refocussing its foreign policy.

Robin Pauley

Plan to launch a two-ocean navy

Continued from page 2

European nation except Britain (in the Falklands).

After Vietnam, President Nixon warned that the US could not be relied upon to defend the whole of the South Pacific and Australia and New Zealand would have to defend themselves as part of their contribution to overall western security. Australia accepts this and remains deeply committed to the US, which maintains three controversial bases in Australia.

Australia also remains wholly committed to the Anzus treaty and to new Zealand in spite of the recent split in Anzus caused by Mr David Lange's government's refusal to accept visits by US nuclear powered vessels.

A natural part of Australia's future defence policy will be to play a heightened role in the South Pacific and in regional defence. The map shows that Indonesia, for example, is much closer to northern Australia than northern Australia is to either the south east or south west. Australia's foreign relations with Indonesia have been troubled and some argue that the poor quality of the Indonesian armed forces is improving together with better technology—new and sophisticated missile-armed frigates and West German combat submarines together with F-16 aircraft.

By 1990, however, they still will not have half the capability of Australia but Australia has to keep a regional eye out for Indonesia's future attitude to Papua, New Guinea, for example.

There are other wrinkles throughout the region. In spite of their vehement denials it is clear from published satellite photographs that the Soviets are creating a considerable naval force base at Cam Ranh Bay in Vietnam. Tensions among Pacific islands have resulted in occasional fishing agreements with the Soviet Union—Vanuatu, for example—and dismay with the West which expresses itself in anti-French sentiment over New Caledonia's unsuccessful attempts so far to secure its independence, itself linked with the affront to regional sensibilites caused by French nuclear testing at Mururoa Atoll.

To Australia's dismay both Britain and the US have decided not to sign "Spinfizz" (the SPNFZ or South Pacific nuclear-free zone treaty), a largely innocuous treaty emanating from the South Pacific Forum which broadly requires signatories to agree not to produce nuclear weapons in the south Pacific or store them there and requests states which possess nuclear weapons not to use them in the South Pacific.

But these are largely foreign affairs difficulties. The defence of the region seems stable and Australia itself looks more than secure.

This is perhaps just as well given some of the decisions that are being taken. As part of the defensive and regional strategies the Australian Navy is to become a two-ocean Navy, half staying on the east coast, probably at Jervis Bay in New South Wales, and the other half moving to Fremantle in Western Australia where the chosen site has access only through a narrow dredged channel between two sandbars.

One vessel sunk in the channel would trap Australia's Indian Ocean Navy; the Navy's confident decision to overlook this potential difficulty underlines just how threat-free the country is.

It was the opposition Liberal leader who noted succinctly: "Australia's defence problem is that Australia has no defence problem."

The abandoning of the old attack-defence strategy and the implications it had for Australia means that the country is never again likely to be in the absurd position of considering the purchase of aircraft carriers, for example.

Although the Dibb strategy of denial involves initial substantial expenditure in sophisticated defence equipment, such as over-the-horizon radar, up to six new submarines at a cost of A$4bn, and a new fleet of fast and light naval patrol frigates (A$3.5bn), the long-term effect of the new policy should be to constrain and rationalise expenditure.

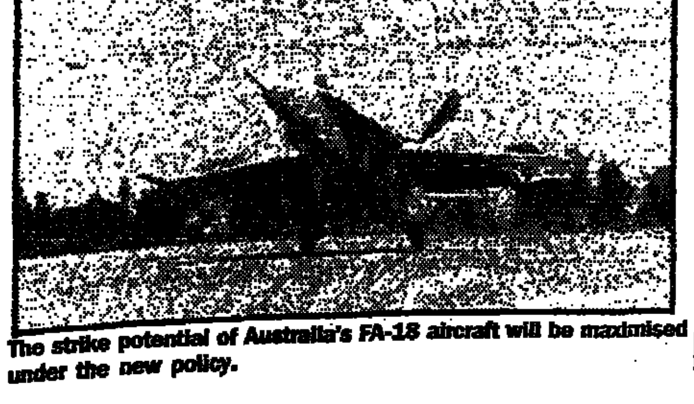
Given the seriousness of the economic crisis and the fiscal austerity programmes of recent times, the defence budget has escaped remarkably lightly: it has grown at an average 3 per cent a year in real terms and even in the current financial year of crisis management of public expenditure it has expanded by around 1 per cent in real terms, still gobbling up 2.9 per cent of GDP.

It is unlikely to escape the knife in the May expenditure statement to be made by Mr Paul Keating, the Treasurer. Defence expenditure is now expected to be pegged as a proportion of GDP, meaning it cannot grow unless the economy grows.

Further pressure may also be applied to revenue costs, the most likely target being the bloated bureaucracy. This is known as the teeth-to-tail ratio and produces two civil servants for every uniformed officer at the senior levels. Australia spends twice as much on its defence bureaucracy as it does on defence research and development.

Clearly, rationalisation is long overdue: there are fewer air force fighter pilots than planes, only 21 per cent of the Navy is at sea and there are only three submarine crews for six submarines.

However, while the white paper's proposals should provide a more coherent and slimmer defence force, they do not imply an isolationist Fortress Australia policy. While the Bomb-Centra-Java-Brigade, as the Air Force is sometimes unkindly known, has been denied its ambition for a full A$470m updating and upgrading of the 23 F-111 the strike potential of the more economical multi-role aircraft like the FA-18 will be maximised in the only strike-offensive aspect of the new defence policy.



The strike potential of Australia's FA-18 aircraft will be maximised under the new policy.

Restructuring the economy

A long and difficult road

QUESTION: When is bad economic news good economic news?

Answer: When it's Australian economic news. That, at least, is the unhappy implication of the *"lucky country's"* present appalling economic predicament.

In the past, unexpected turns of fortune have come to Australia's rescue when the economy has looked threatened. But if it happens *again* this *time*, a courageous attempt to restructure the economy might be halted in its tracks, almost certainly to the long-term detri*ment of all*.

As things stand, a fortuitous rescue looks unlikely. It could only come from an across-the-board rally in world commodity *prices and this is not being* foreshadowed for any time this decade.

That means hauling the country on a long and difficult road over a period far longer than any government's term of office. To Labor's immense credit, it has determinedly begun this task rather than simply muddle through.

Unfortunately, this has meant administering some bitter medicine—demanding *real sacrifices* from both individuals and government in order to secure any genuine long-term improvement.

The trouble is, serious questions overshadow this laudable straegy. Did the Government recognise the problems early enough to take effective action? Has it *done* enough *so* far *to* combat them? Are political con*siderations now limiting how* much more can be done?

Mr Paul Keating, Treasurer: administering some bitter medicine

To speak to Mr Paul Keating, the Labor Government's powerful and self-assured 43-year-old *Treasurer, the answer to all* three questions is an emphatic, and slightly worrying, "yes."

*He does not accept that a mis*take was made in going for growth in the first three *finan*cial years of the Hawke administration, *when gross domestic* product expanded by 5.4 per cent, 4.4 per cent and 3.7 per cent—better than most of Australia's OECD partners. *Equally, he is confident that* the array of austerity measures taken so far and now under consideration—in fiscal and monetary policy, on the exchange rate *and over labour costs*—will prove adequate in combating the disastrous effects of Australia's relentlessly declining terms of trade.

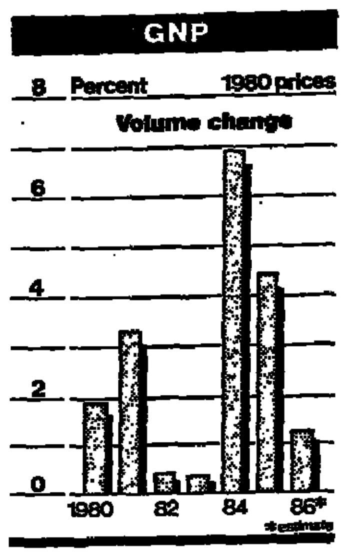
Finally, he refuses point-blank to press ahead with policies which might push the economy into recession, cause unemployment on the scale seen in Britain, or jeopardise the *Government's remarkable* working relationship with the trade union movement.

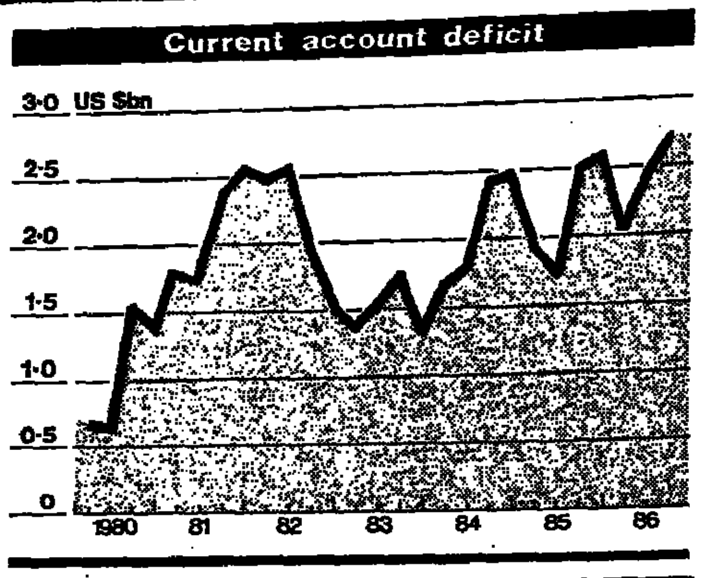
Mr Keating's contentions are understandable, especially given the *constraints of Australia's* three-year government terms. But they are also a cause for anxiety.

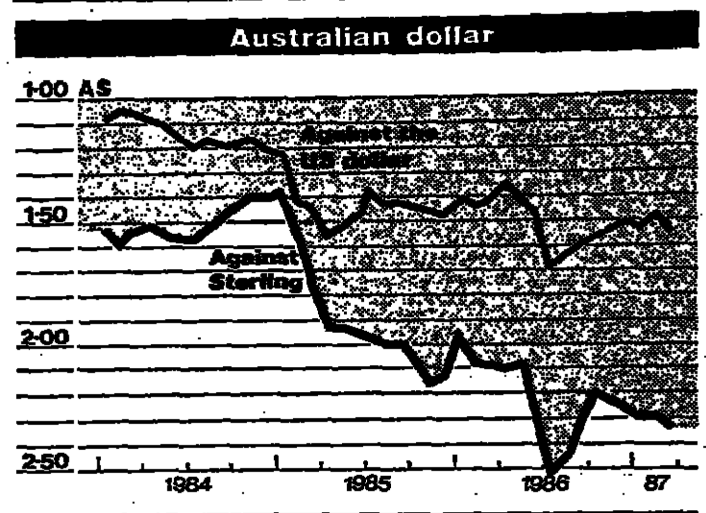
Economists acknowledge, for *example, that no one back in* 1984 projected the continuing fall in commodity prices. But the long-term decline in Australia's terms of trade now *stretches back decades, and this* demanded action even before Labor came to office.

As for the measures so far, most of these have carried *Australia into* an exciting era of modern economic management which, again, reflects badly on Labor's predecessors. But doubts persist over whether they have come too late and with enough bite to deal with deteriorating external and internal conditions.

In the current year, Australia will still post a positive growth figure of perhaps 2 per cent. Though this reflects a dampened domestic economy and weak external demand, it is actually less than the Government hoped.







As the current account deficit of the balance of payments has soared to record levels, the Australian dollar, which was floated in 1983, has weakened dramatically. Over the past two years Australia's terms of trade have worsened by some 20 per cent.

Over the past two years Australia's *terms of trade* have worsened by *some 20 per cent*. Only gold and wool seem to have bucked a trend which has hit the country's wheat, sugar, meat, coal and iron ore.

As the current account deficit of the balance of payments has soared to record levels, the Australian dollar, which was floated in 1983, has weakened dramatically.

Worried about domestic reaction and rising inflation, the Government last September put a floor under the currency. Helped by high interest rates, the dollar has since strengthened, but in defiance of fundamentals and in a way that may prove counter-productive if it continues.

The farming community is suffering most, caught in a classic vice of *low* prices and *high* costs, but tourism has seen a marked improvement. Manufacturers have responded slowly: import replacement and export generation is *proceeding* patchily, while investment remains at historically low levels.

Having helped to create *750,000 jobs, the Government's* latitude to impose austerity has been widened by a relatively low unemployment rate of 8.2 per cent, which is still below the level it inherited.

The inflation rate, however, at just under 10 per cent, is several times higher than its trading partners' and only likely to fall slowly. Despite genuine restraint by trade unions in the past three years, real earnings are still close to levels seen when Labor came to power.

It is now widely accepted *that* Australians have for years been *tending* to consume rather than invest. Only now are they beginning to appreciate, and to pay for, the consequences.

That is why the focus of atten*tion for the government* and the international markets remains the current account of the balance of payments—the barometer which measures how *much Australians are living* beyond their means.

The current account has been in deficit since 1973-74, but has become stratospheric under *Labor, hitting* a record *A$10.8bn* in 1984-85 and then exceeding this last year to reach A$13.7bn.

Much is being made of the fact that the deficit might come in this year at around the *same* level instead of A$1bn higher, as projected in last August's budget. The truth, however, is that such a deficit, at 6 per cent of GDP, is unsustainable.

For many economists, there*fore, it is a matter of time before* the currency once again comes under pressure. The strengthening of the dollar in recent months mainly reflects a desire *to take advantage of Australia's* high interest rates and confidence about the reserve bank's floor.

It has also been helped by inward flows of capital to the share market, which has seen *heavy takeover activity* and strong demand for gold stocks—the latter because of a high bullion price in Australian dollars.

The overall effect has been to keep the dollar hovering around 66-68 US cents and at 53-54 on a trade-weighted basis (May, 1970=100). This is well up on the low point of last July when it *touched 57 US cents and* went below 50 on the trade-weighted index.

While this might appear to offer some scope for interest *rate cuts—a particularly sensi*tive issue for a government seeking investment and re-election—Mr Keating is clear that there is little scope for this.

With the *inflation rate sitting* just below 10 per cent, nominal interest rates could not be lowered much from existing levels (the benchmark long *bond rate is around 14 per cent)* without producing real rates too low for the markets to tolerate.

Currently, *market attention is* focused on the government's expenditure statement planned for May, a "mini-budget" of spending cuts to take effect in the 1987-88 fiscal year beginning *in July*.

According to Mr Keating, the main reason for the May statement is to allow the cuts to take effect over the full year instead of from budget day in August. He insists it does not mean *something* has "*gone wrong*"—the Government has had May statements before.

The Government's fiscal policy has nevertheless turned out *to* be *less effective* than intended. The budget deficit for the current 1986-87 fiscal year is overshooting its projected target of A$3.5bn, and cuts have *been ordered to rein it* back in.

This would put it at around 1.5 per cent of gross domestic product, a creditable improvement on the figures of the Hawke Gov*ernment's early days. Without* cuts in the coming year, however, the deficit is likely to reach A$6-6.5bn, so A$3bn must be excised to keep the deficit at a *similar level without* resorting to new or higher taxes.

The problem, though, lies more with the *state* governments and the public sector agencies than with the Federal Government. The states have dipped into reserves from past borrowings to maintain spen*ding levels, with the* effect of *buoying the net public sector* borrowing requirement.

Funding this public sector deficit has, together with the defence of the dollar, kept *interest rates high. This has in* turn resulted in higher-than-expected debt service payments, and these too have made an unexpectedly high contribution to government spending.

The markets will therefore be looking to see how strongly the government bites the bullet over the May cuts. There is still scope *within* federal *spending*—defence is an obvious candidate, and there is talk of means-testing middle-class recipients of welfare.

Dealing with the state governments may be more of a problem, *but the bulk are ruled* by Labor governments. A premiers' meeting is scheduled for May, so there is little doubt that the message will get home.

Watching the outcome along with the markets will be the domestic political opposition parties. They have been promising the electorate large tax cuts which *can only* be *funded* through massive spending reductions. Details are still awaited.

One important side-effect of *these developments* has been a sharp rise in Australia's external debt. Figures for the three months ending last September were released in February and showed the *debt rising above* A$100bn for the first time.

Gross external debt was put at A$101.36bn, up from A$70.96bn a year earlier and from A$35.6bn in June 1983. Net external debt, measured after subtracting lending *abroad* and official reserve assets, increased *to* A$80.71bn.

Around half of the increase in *gross debt* since mid-1984 has been due to the depreciation of the Australian dollar, the currency in which Australian debt is customarily measured. The remainder *reflects* increased foreign borrowing, *much of it by the private sector* and the states rather than the federal government.

This trend reflects how both the Government's needs have *pre-empted other borrowers* and adverse interest rate differentials have driven them offshore.

The implications for Australia's future are sobering. According to the Government's econo*mic planning* advisory council, it will take a swing into surplus on the trade balance and a stabilisation of net foreign debt at 40 per cent of GDP (the present *level is 36 per cent*) to halve the current account deficit to 3 per cent *of* GDP by the end of the decade.

According to the council, this can only be *done* through *sustained* depreciation of the Australian dollar, continued high interest rates, further moderation in labour cost growth, reduced *consumption spending*, increased domestic savings, a switch in foreign and domestic demand for Australian products, and strengthened invest*ment* to build a competitive domestic industry which will meet that demand.

This lengthy and formidable catalogue spells out in *simple but highly problematic terms* the task which Mr Keating and the Labor Government has tried to confront.

If it has yet to spell out the practical implications clearly enough to the Australian people, it is easy to *see why*. Few countries are more political than Australia, with its voluble parties and pressure groups and its wide media freedom.

The opposition, which is as aware as the Government of the jam the country is now in, has been no more forthcoming. Though its solutions rightly *involve more pain, they are not* dressed up as such.

If Australians finally acquiesce in a third alternative of muddling through—adopting what is known *locally* as the "she'll be right" mentality—they will end up, perhaps justifiably, blaming the politicians for the mess they will be in. But they may be too late to help themselves—unless they accept that, *for now*, bad economic news is good news.

Chris Sherwell

Upheavals in banking

The going gets tough

TWO YEARS on from Federal Treasurer Paul Keating's bold political experiment in deregulating the Australian financial *system, the country's banking* industry is still very much in an adjustment phase.

The two centre-pieces of the Keating deregulation strategy—floating the currency and issuing licences to 16 new *banks—have caused the biggest* upheaval ever seen in the comparatively short history of the Australian banking systems.

And with the bottom line as the final arbiter, the banks have so far *suffered* from what has *become a much more competi*tive environment. Australia's big four domestic banks—the Commonwealth, Westpac, the National and the ANZ—have all *seen their profit growth grind to* a halt and many of the newcomers have announced losses, in some cases heavy ones.

But that is only the short-term picture and reflects considerable costs in gearing up for the *new environment*. The new banks have also made their debuts in a difficult economic environment with high interest rates and a patchy economy. *This has cut lending margins to* all-time lows of around 0.2 to 0.3 per cent.

A fairer test of the new banks will come further out, once economic conditions have *stabil*ised and their strategies have had time to work.

Essentially, the big four Australian banks are engaged in a defensive operation to protect their market share in the *mainstream banking areas. But* they have also thrown off a rather sleepy reputation and competed *strongly* in some areas which have traditionally been the preserve of foreign banks.

The score of foreign banks now licensed to operate in Australia account *for* 8.5 per cent of total banking assets and an even higher 11.6 per cent of *trading bank assets*.

Compared with the experience of Canada, this is fast growth indeed. That country admitted foreign banks in 1982 and it has taken them five years to reach an 8.8 per cent share of Canadian banking assets. Part of the reason for the newcomers rapid growth in Australia is that many had already been operating as "quasi banks" in the country for at least a decade. Those with local experience were among the *best* performers.

US-owned Bankers Trust Australia, for instance, declared a A$34.2m *profit* in the *latest* period, much *of* it from merchant banking. Citibank also performed well with a A$58.8m profit in Australia. But the other side of this was a *A$41.8m loss suffered* by NatWest Australia, offshoot of the National Westminster Group of the UK.

New banks bent on establishing a retail presence have generally found the going tough *with National Mutual Royal* Bank a good example. The bank, a joint venture between the locally-based National Mutual Insurance Group and the Royal Bank of Canada, spent most of 1986 in a troublesome take over attempt on one of the *country's* largest building societies, United Permanent.

The acquisition was obviously aimed at securing a retailing network, but it *involved* the group in considerable cost and it reported an A$8.9m loss for 1986. Chase AMP, the joint venture between US-based Chase Manhattan Bank *and the local* AMP Society, has also spent up on retail development and reported a A$7.9m loss in the same period.

Lloyds, which operates in Australia jointly with the National Bank of New Zealand, obtained good mileage from its extensive merchant banking *experience in Australia* and posted a A$6.1m profit in 1986.

While their own performance has been mixed, the foreigners seem already to have dented their *major local* rivals. The Commonwealth was the only major Australian bank to report positive real earnings growth with a rise of nearly 25 per cent in the latest *full year*. The other three banks reported virtually

CONTINUED ON PAGE 5

Taxation reforms

The debate intensifies

IN AUSTRALIA'S fiery politics, one issue persistently dominates public discussion—the state of the economy. And in the argument over living standards which inevitably dominates debate, one question has become an unavoidable focus of attention—tax.

Tax was a major talking point in the last election in December 1984, and it will be a bigger issue at the next one. Even before Sir Joh Bjelke-Petersen appeared on the national political scene late last year, both Mr Bob Hawke, the Prime Minister, and Mr John Howard, leader of the opposition Liberal Party, were agreed on that.

All three are now vying to implement surgical changes in Australia's taxation system. Sir Joh's plans are the most radical, but also the most vague. Mr Howard has kept the lid on his proposals, but they would undoubtedly go further than his Labor opponents.

Yet the inescapable fact is that, under Mr Paul Keating, the Labor Treasurer, Australia has already seen the most comprehensive and radical taxation changes in generations. The fact that the Government should be under attack for "not doing enough" says much about the intensity of the current debate.

Labor's lengthy catalogue of changes is contained in a document known rather cruelly as "Rats," the acronym for Mr Keating's statement on September 19 1985 called "Reform of the Australian taxation system."

In this, he said the time had gone when Australia had a reasonably sane and credible taxation system. The old system, he said, had been "broken and beaten by an avalanche of avoidance, evasion and minimisation." As he put it, the changes would "significantly reduce marginal tax rates," curtail tax avoidance and evasion and restore fairness to the tax system "and gear our tax system for economic growth by providing greater rewards for initiative, removing distorting shelters and ending the double taxation of dividends."

The reforms are due to be in place before the start of the next financial year in July. Some key aspects have yet to be legislated. Many have already caused pain for taxpayers, lawyers and accountants as well as the Government and the taxation office. But less than two years after they were unveiled, they should be fully operational.

The most important changes, politically, are those which reduce marginal rates of income tax. This is being done in two stages, the first last December, the second in July. As this is mandated by law, there is little chance of the July cut being reversed in order to contain the Government's swollen budget deficit.

The need for the cuts is underlined by the fact tha one in every two taxpayers is currently paying a marginal rate of 40 per cent or higher. In 1958, the figure was one-in-40.

The trend reflects a rise in marginal rates biting at lower levels of income. To reach the top income tax bracket nowadays, an Australian taxpayer only has to earn one-and-a-half times average weekly earnings.

The December cuts increased the tax-free threshold and lowered all marginal rates. The second stage will affect only the top rates—an intriguing move politically on the part of a Labor Government. Overall, the highest rate will fall from 60 per cent to 49 per cent, but will continue to apply from annual incomes of only A$35,000.

Despite the improvements, the impact has been blunted for the better-off by the introduction of a capital gains tax. Although this is levied at ordinary rates of tax on realised (and real) capital gains made after September 1985, it has earned criticism.

Partly this is because the legislation only followed several months after details of the tax were first announced, leading to inevitable anomalies. But the main complaint is that the intrusiveness of the tax has proved far greater than expected—the revenue yield, put at A$25m in the fifth year, is certain to be exceeded in the first.

The opposition Liberal Party and, latterly, Sir Joh Bjelke-Petersen have meanwhile sought to belittle the impact of the income tax cuts and promised even larger ones of their own.

By the beginning of this March, neither had spelled out precisely how these would be paid for. Labor's cuts, on the other hand, are to be funded through controls over public spending without adding to the Government's deficit.

Work by Prof Michael Porter's team at Monash University's Centre of Policy Studies in Melbourne suggests that spending cuts of A$8bn would be necessary both to remove the current budget deficit (targeted this year as A$3.5bn) and to support a top marginal rate of 30 per cent.

The Government itself claims even larger cuts would be required to support Sir Joh's plan for a 25 per cent flat tax rate or for the Liberals' proposals, but until these are spelled out more clearly, this is difficult to assess.

A further complication for the troubled opposition coalition linking the Liberals and the National Party (of which Sir Joh is a member) has been the latter's rejection of a consumption or expenditure tax.

The Nationals, formerly the Country Party, say this would fall unfairly on rural communities. The Liberals say it offers an opportunity to broaden the tax base and to flatten existing indirect taxation, which currently hits a few commodities at high rates.

The Government itself proposed a consumption tax in 1985, but in what may go down as the single biggest missed opportunity of Mr Hawke's rule, backed down and decided to simplify existing wholesale tax schedules instead.

Ironically, Mr Keating now says it would be wrong to introduce such a tax because of the boost it would give to Australia's already high inflation rate.

On the corporate tax front, one key feature of labor's reforms is an alignment at 49 per cent of the top personal income tax rate with the corporate tax rate, to take effect from July.

The change, which increases the corporate tax rate from its present 46 per cent level, neutralises the tax considerations which have encouraged individuals to form companies. It is one of several corporate tax reforms which, taken together, are quite as important as the personal tax changes.

Apart from the capital gains tax, three in particular are altering the way business is done in Australia: the fringe benefits tax, the foreign tax credits system, and the introduction of dividend imputation.

The opposition parties, to the extent they have spelled out their position on corporate tax promise to abolish the capital gains tax and the fringe benefits tax.

The latter is designed to combat the tendency of employers to remunerate employees through fringe benefits and thereby avoid high marginal income tax rates. But because it is levied on employers—currently at 46 per cent, from July at 49 per cent—it is by them as a tax on employment.

Indeed, their angry response last year to the complications and extra bookwork forced the Government to review its "unintended consequences" and make some adjustments. More than any other measure, the fringe benefits tax has made employers speak out against the Government's taxation policies.

Their anger seems all the more justified in light of the Government's failure to push through its consumption tax plan. This lack of will contributed to the imposition of the fringe benefits tax, while the Government's worries about the political effect of the tax on ordinary working people led it to levy the tax on employers.

Also raising the ire of businessmen is the Government's foreign tax credit system, under which the Government, from July, taxes the foreign source income of Australian residents at Australian rates.

Previously the income of Australian residents from foreign sources was exempt from income tax if it had been subject to tax abroad. Now this tax will simply be credited and allowed against Australian tax payable on the income.

Businessmen who have expanded abroad have been quick to complain, although it is clear that the Government wants to recoup income lost through the incorporation of businesses in tax havens and low-tax countries.

Perhaps predictably, at least two companies, both in mining, are reported to have shifted their corporate assets abroad, in one case to New Zealand, in the other to the Isle of Man, in order to avoid being penalised by the Australian taxation system.

But tax specialists say it is too early to judge what the impact of the change will be until it is implemented.

As for the Government's most positive corporate tax reform, the introducton of a dividend imputation scheme, this, too, has attracted criticism. The change, in removing the double taxation of dividends to shareholders, aims to encourage share ownership, and a shift in corporate financing from debt to equity.

Legislation is still awaited, so again it is too early to assess its likely impact. But principles of the scheme are clear.

Companies will have two types of dividend—qualifying, or franked, and unfranked. Corporate tax of 49 per cent will be paid on qualifying dividends, and shareholders will receive a credit for this tax to be set against tax payable on other income. On unfranked dividends, shareholders would still be liable for tax.

Mr Keating has called the change the most significant business tax reform since the war, giving Australia one of the most advanced and efficient business tax regimes in the world.

But it is being paid for partly through the increase in the corporate tax rate from 46 per cent to 49 per cent. Although this brings about the beneficial alignment with the top personal tax rate, the rise has irritated businessmen.

The scheme's main selling point is that it significantly increases shareholders' after-tax returns in the form of dividends, whether they are residents or non-residents.

This in turn is supposed to encourage investment in shares for long-term returns, and to increase the incentive for small and medium-sized business people to take risks.

The system is described as a world first because it will be the only imputation system in which the full rate of company tax paid is credited to shareholders.

But it has been criticised because individual shareholders represent only around one-quarter of all shareholders. The rest are made up of institutions, many of which are not liable to tax (like superannuation funds) or pay only a withholding tax (like overseas residents).

For them, the new system appears to hold little attraction, and they may even be tempted to adjust their portfolios to the new circumstances, perhaps away from shares and into debt instruments.

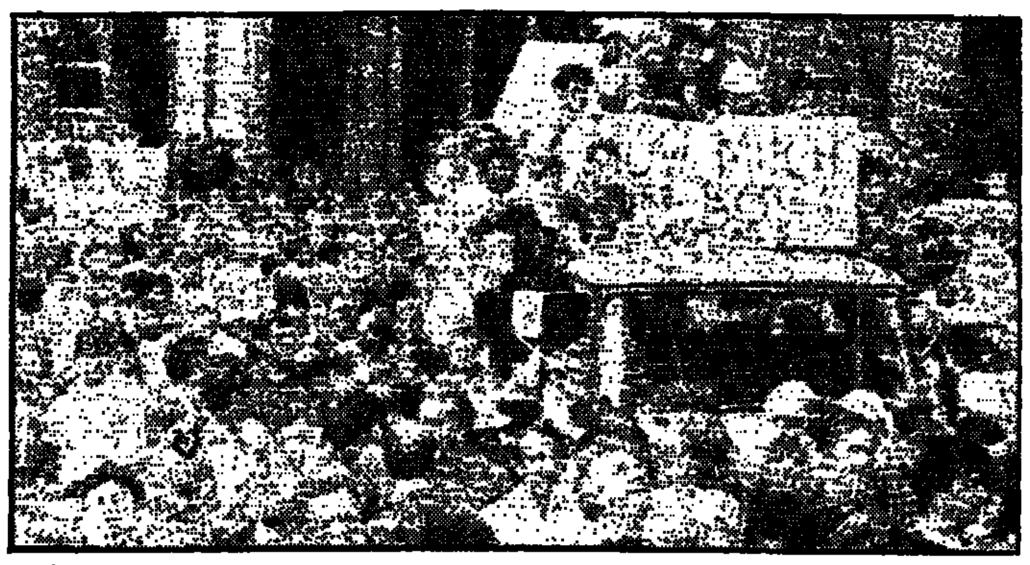
In addition, companies which pay less than the full corporate rate of tax may find it less easy to do this under the new system. They will be hoping that there will be sufficient tax-paid profit to cover their payouts of qualifying dividends.

Either way, it appears that the system will create different classes of investor according to whether they are paying high or low marginal rates of income tax and whether the companies in which they invest have high or low tax rates and dividend payouts.

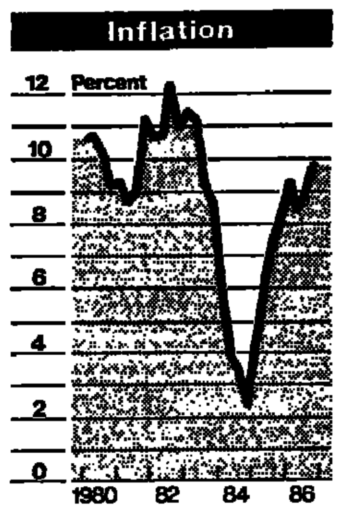
In all of these changes, two damaging effects stand out. One is that the taxation office, already under attack for its inefficiency, lack of resources and staff, has had trouble coping.

The other is that, in making some of its reforms by press statement and parliamentary pronouncement, the Government has created uncertainty at home and abroad which has impaired the confidence which the measures ought to be inspiring.

Chris Sherwell



Trade unionists in Sydney protest over wage restraint levels to combat inflation



Pressure on banks

Continued from page 4

static results in the same period and laid most of the blame on Government economic policy.

Apart from a growing bad debt problem resulting largely from depressed sectors of the Australian economy, the local banks also have a dilemma which their foreign competitors do not—the growing millstone of housing loans.

The Big Four have been forced by the Federal Government to maintain rates on their existing housing loan portfolios at 13.5 per cent, even though they are permitted to charge any rate they chose for new loans.

Housing loans are, in fact, the only significant area of financial markets which remain regulated because of their political significance. But in a high interest rate regime where prime lending rates are around 18 per cent, being restricted to 13.5 per cent on housing loans is costing the local banks dearly.

Despite this problem, Australian banks have, as indicated, moved to counter their foreign attack on their markets by moving more heavily into capital markets and international expansion. With local capital market raisings in Australia running at an annual rate of about A$80m—more than twice the level of a year ago—the local banks have made their presence felt for the first time.

After years allowing the large foreign investment banks such as Salomons, Merrill Lynch and Morgan Guaranty to dominate the scene, Australian banks handled about 40 per cent of local capital raisings in 1986 with Westpac alone accounting for nearly one-fifth of the total funds raised.

Australian banks are now particularly strong in arranging, lead-managing and underwriting syndicated loans, revolving underwritten facilities and promissory notes. However, they are still weak in bonds and this area could well be addressed in 1987.

While they are all attacking local capital markets, the trading banks are split down the middle over the question of rapid overseas expansion. The ANZ has gone in at the deep end with its 1984 purchase of the UK-based Grindlays group for about A$280m and now has about 44.5 per cent of its assets overseas.

Westpac also has strong overseas ambitions, recently billing itself as "Australia's world bank" in promotional material. The bank has about 28 per cent of its assets overseas and a stated aim of rapidly increasing this.

Conversely, the National Bank, with about 21 per cent of its assets offshore, believes its domestic-international balance is about right and plans to concentrate on its home market. The Commonwealth's position is similar, with about 20 per cent of its assets overseas.

Being owned by the Federal Government, the Commonwealth does not feel a further push into overseas markets would be politically appropriate.

Bruce Jacques

Sharemarkets boom

A flood of new issues

AUSTRALIAN sharemarkets are experiencing the strongest and most broadly-based boom in their 150-year history and have comfortably outperformed their major international rivals' in the past two years.

Continuing major takeovers and a flood of institutional money from domestic and overseas sources have combined to cast aside Australia's considerable economic problems and confound the market fundamentalists.

While cautious analysts warn of an imminent correction, more seasoned investors are reaping huge rewards not just from physical markets but with increasing use of sophisticated share-related ploys in futures and options markets.

With a capitalisation in early 1987 standing comfortably above A$190bn, the Australian bourse ranks as the world's sixth largest, accounting for more than 3 per cent of non-US listed share value.

The value of listed Australian stocks more than doubled in 1985 and 1986, a growth rate which is well ahead of major bourses in Tokyo (up about 75 per cent in the period), New York (up around 55 per cent) and London (ahead about 40 per cent).

In the same period, Australian market turnover has more than tripled with shares worth more than A$40bn changing hands in 1986. These boom conditions have brought a flood of floats and issues to the market with more than 100 new companies listed in the second half of 1986 alone.

Australian exchanges hosted capital raisings approaching A$6.6bn in the same six months, a rate not far behind the entire previous year. To date, these raisings have far from satiated the market's appetite for scrip, but they have brought inevitable cries that the market is now "defying the fundamentals" or has "entered a mature phase."

Leading Australian stockbroker, Ord Minnett, placed itself in this camp with a recent analysis of the rush to raise equity. Analyst Geoff Warren pointed out that although raisings were running at an annual rate well in excess of A$10bn, not all of this amount was coming directly from local investor's pockets because of cross shareholdings between companies and generally high foreign equity levels.

But Warren said extraction from investor liquidity was still substantial, especially as fewer recent take overs had contained cash considerations, "even the Herald and Weekly Times take over placed no more than A$500m in shareholders' hands, and this amount will be offset by new media-related issues," he said.

"New issues plus the effect of prices rising at the rate of 50 to 100 per cent per annum would have substantially raised portfolio weightings in Australian stocks. This increase in weightings would also be reinforced by a firm Australian dollar and a weak Australian bond market.

"The higher the weightings go, the more vulnerable investors become to a market decline, and the greater the scope for a nervous correction. Weight-of-money has been the accepted life-blood of the Australian market.

"The above factors, plus the notion that the real money supply has been virtually unchanged over the past year provide good reasons for caution and reinforce our view that correction is near."

The Ord Minnet view is beginning to gain some support, yet even at prices which would have been considered heady only months ago, many Australian stocks are selling at multiples which still appear cheap by international standards.

Research by the US-based Morgan Stanley Capital International Group shows that at the end of January the Australian market was selling on a price-earnings multiple (pe) of 14.1. This was about line ball with the UK market at a pe of 14.3, but was still well below the world average pe of 20 and the US figure of 16.2. The Australian price level also paled against Japan's pe of 50, Singapore's 40 and levels around 20 in Italy, France and Canada.

The Morgan Stanley research also highlighted the effects on the Australian market of the latest bout of take over activity which has reshaped the country's media industry.

Spurred by take over bids worth more than A$3bn from Mr Rupert Murdoch's News Group for the Herald and Weekly Times Ltd, Australia has three stocks in the world's top 30 performers for the latest quarter—Advertiser Newspapers with a 127.6 per cent gain, the Herald itself with a 94.8 per cent rise and John Fairfax with a 76.1 per cent jump.

And while some of these prices have since subsided with the take over activity, the Morgan Stanley figures indicated that selected stocks in the Australian market are selling at much lower comparative pes than the overall figures suggest.

Nowhere is this more obvious than the gold sector where Australia is expanding rapidly and heading towards becoming the Western world's second largest producer after South Africa by the 1990s. With South Africa now virtually out of contention as a gold investment host because of political uncertainties, Australian gold stocks have been keenly sought, but their pes are still well below those of companies in the only other major producing area, North America.

Australia's leading listed producers, like Kidston and Central Norseman Gold, are selling at multiples well below 20 while North American miners like Homestake and Echo Bay Mines have corresponding figures in the 60 to 70 region.

The current year is also a watershed for the Australian securities industry because it marks the completion of the process of deregulation begun in 1984. From April 1 this year, outside shareholders both foreign and domestic, will be free to hold 100 per cent of Australian broking firms.

Outsiders have been able to hold up to 50 per cent for more than two years and this has led most of the major brokers to form partnerships with local and international financial houses. These links are likely to become even firmer later in the year.

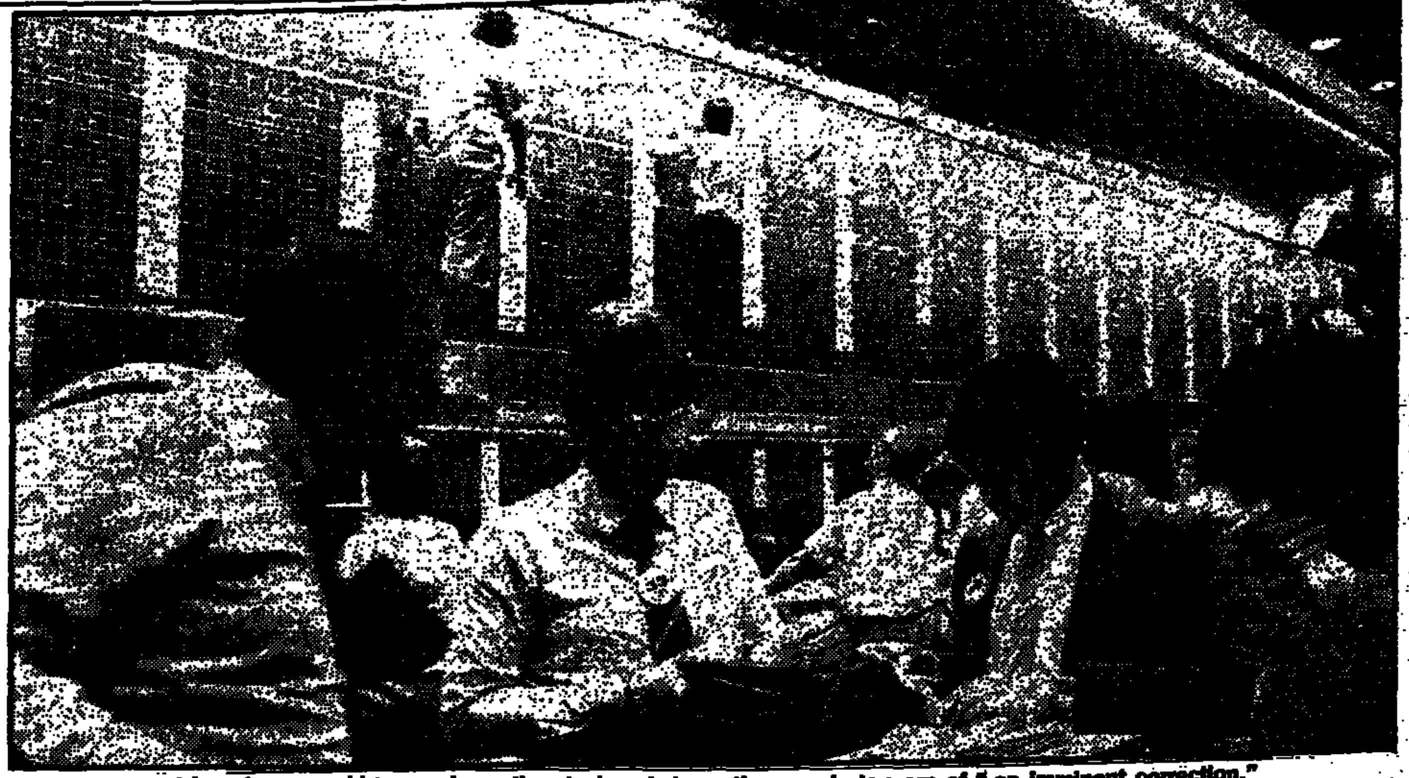
The ownership changes have coincided with deregulation of brokerage rates which have been more than halved since 1984, a factor which has made marriages with larger financial houses more attractive for many firms.

Australian stock exchanges are also looking to round off these developments with a number of initiatives, the most visible of which will be joining of the country's six trading floors into one entity known as the Australian Stock Exchange.

This has never before been attempted in a country of such geographic dimensions, and its importance will be in greatly streamlining administration and regulative procedures. But the creation of one exchange will only form the backdrop to two arguably more important projects, a gradual switch to screen trading and development of a new share transfer and depository system.

The exchange's strategy in these initiatives is to place Australian bourses among the most efficent in the world for execution of orders and settlement procedures. They will need to be if they are to maximise Australia's time zone advantages and arrest the drift of business in Australian stocks to offshore locations.

Bruce Jacques



While seasoned investors reap big rewards on the stockmarket, cautious analysts warn of "an imminent correction."

Industrial relations

Wage accord a success so far

SMOOTH INDUSTRIAL relations have been a key element in the Hawke government's fight to restructure the Australian economy since it came to power in 1983, but more troubled times could lie ahead.

The national wage "accord" between the government and the Australian Council of Trade Unions (ACTU) has helped combat the financial storms caused by a large balance of payments deficit, a huge foreign debt and a crumbling dollar, but after four years of moderation, with falls in real wages under the accord, pent-up pressures are again making themselves felt.

From an employer's point of view, Australia's 300 trade unions have perhaps inherited most of the shortcomings which used to charcterise their British counterparts, and then added a few more of their own. Australia is one of the most heavily unionised countries in the western world with more than 55 per cent of male workers belonging to a trade union, a far higher proportion than in the US, and most other OECD countries.

Most of the unions are craft organisations and not, as in the US, industrial unions. This has often meant restrictive practices, comparability disputes and pay leap-frogging. Some trade unions in the past have been captured by left wingers, and used for political purposes, and there have been rashes of strikes comparable to the worst spasms in Britain.

The key difference between Australia and many other western countries, however, has been the existence since 1904 of the legally-backed Independent Commission for Conciliation and Arbitration, founded to bring about the "prevention and settlement of interstate industrial disputes."

There have been changes and amendments over the years, but the machinery is still basically intact. There could be further changes if recommendations in a recent government report are implemented. This very broadly wants the legal side of the disputes procedure to be placed to a greater extent in the hands of people with industrial or union backgrounds, rather than federal or state courts backgrounds.

The commission—or, strictly speaking, commissions, since there are state bodies, as well as the federal one—deal in the first instance with the Australian Council of Trade Unions, which represents around 80 per cent of unionised workers.

The ACTU and the commission thrash out a national wage case each year, or for shorter periods, when circumstances demand. The wage case is less a norm for national wages than a minimum guideline.

Because of a quirk of the Constitution, the ACTU cannot go on and press the national wage case through the arbitration and disputes procedures, but it can act for any of the individual unions. At present there are some 1,900 cases being considered by the commission in Sydney. The official commissions (or tribunals) not only decide on pay but also regulate conditions of work, sick leave, overtime rates, holidays and so on.

The system obviously has its drawbacks. The commissions tend to look for solutions in disputes on moral and humanitarian grounds, rather than on the basic economic reality, but this can mean that strikes are short lived, when they occur.

It can also mean comparability settlements bordering on the ludicrous. A welder in Darwin, for example, will receive the same wage increase as his counterpart in Sydney, irrespective of different economic conditions.

Critics of the collective bargaining system—and these include not only employers but also a range of so-called "new Right" politicians—argue that because it is not related to price signals or market forces, it encourages labour inflexibility. At a time when Australia badly needs to restructure its economy, this rigidity is the last thing it can afford.

The defenders of the system argue that it has served Australia well. There have been long periods of indexation which have kept wage increases in line with what the country can afford. Supporters would also argue that the unions in recent years, recognising the country's economic difficulties, have shown moderation.

This reasonableness has, however, been in part forced on them. Firstly, union membership has begun to tail off and change as new service industries which are not so heavily unionised have begun to replace the older manufacturing concerns.

Secondly, a number of employers have taken the unions on in tribunals over restrictive work practices and won. At Mudginberri, for example, an abattoir-owner persuaded the tribunal to agree to end a piece work system and replace it with a regular eight-hour day, under which workers would be paid for the number of beasts they slaughtered.

In another case, at Robe River, an iron ore mine, new Australian owners took over the development from Japanese and American concerns, and, after much wrangling persuaded a tribunal to end a wasteful shift system.

These cases and others showed employers could get their way and corrected to some extent the pervasive feeling that the collective bargaining system and the Conciliation and Arbitration Commission were stacked in the unions' favour.

Bob Hawke: aware that after the success of the national wage accord, pent-up pressures are again making themselves felt.

Thirdly, the current union leadership under Mr Simon Crean, the president of the ACTU and Mr Bill Kelty (secretary) has recognised the country's difficulties and has a strong interest in seeing the Labor Government remain in power.

The national wage case has, for all intents and purposes, subsumed the accord. Set up just before the 1983 elections, the accord is an agreement between the Government and the ACTU—the employers' organisations declined to join—that wages will be indexed against the rise in the consumer price index. In return the unions agree not to seek increases in real wages, providing there is economic growth. The ACTU also agreed to defer making productivity increases part of the accord at least until 1985.

The indexed wage agreements run for six months, based on the previous six months' level of inflation. The first came into effect in October 1983 and was for 4.3 per cent, followed in April 1984 by 4.1 per cent. (This lasted for a year because the introduction of medicare public health insurance offset other price movements.)

This, in itself, was seen again as a moderate gesture by the ACTU in that it was viewed as a sign of its willingness to accept improvements in the social wage as an offset to cash wage rises. In the autumn of 1985 what has become known as "accord mark two" was negotiated.

Inflation, having dipped by some 5 percentage points over the life of accord mark one, started to pick up again. To counter the effects of the depreciating dollar, the ACTU agreed to partial indexation. The CPI figure was discounted by 2 percentage points. The November 1985 accord allowed for a wage rise of 3.8 per cent and when it was negotiated again in July 1986 it was for 2.3 per cent and again two percentage points were discounted.

This time though there was the question of the productivity increases postponed from 1983 to 1985 and then again from 1985 to July 1986. It was agreed that it would not be tabled as a claim of 4 per cent in money wages, but as a superannuation pension scheme to cost initially 3 per cent of the wage bill in return for productivity gains.

The accord has been a success so far, accounting, the Government believes, for a fall in real wages of between 4 and 5 per cent over the course of its life. Mr Bill Kelty of the ACTU says he thinks the fall in wages has been steeper, given that the level of inflation has risen to just over 9 per cent.

For its part, the Confederation of Australian Industry has worked out that real wage costs rose by just over 1 per cent during the period of the Accord and, it says, the Government figures were based on the national wage case which is a minimum and take no account of drift and the considerable variations which are woven around the national wage case. Economists at the CAI admit, however, that a 1 per cent increase over four years, if that is the current figure, would be no mean achievement.

For the first three years of the accord, 600,000 new jobs were created. There were also job losses and signs of increased competitiveness were difficult to pin down, but unemployment fell from 10 per cent during this period to just over 8 per cent.

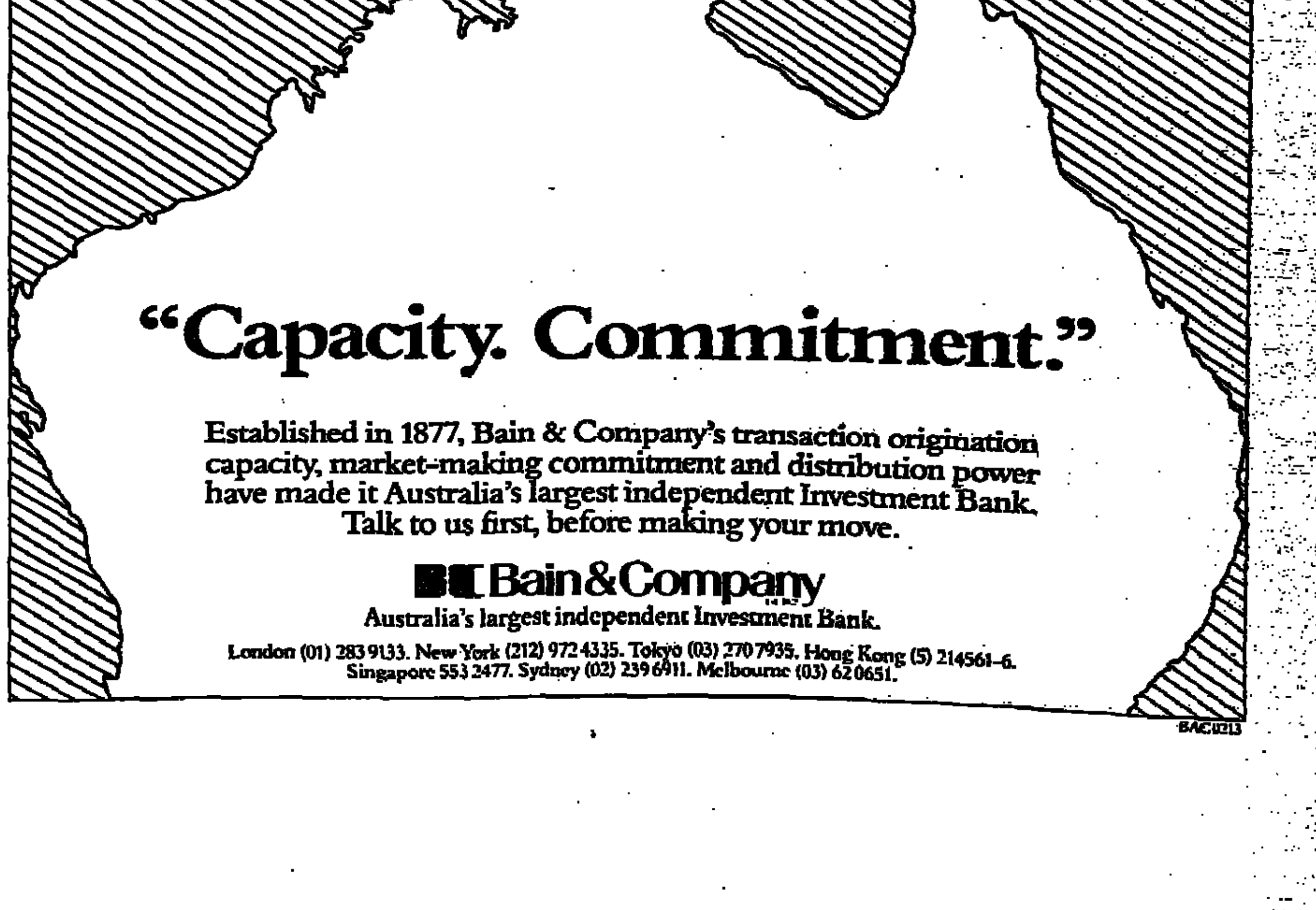
In the fourth year of the Hawke government, strong growth in the economy, fuelling a sharp rise in imports, has started to slow down and will probably do so even further as the government tries to tackle the balance of payments deficit, and a foreign debt of more than A$100m.

As the slowdown occurs, however, and new jobs become harder to find there are fears that the accord will start to unravel. As Wilma Spence at the Conciliation Commission in Sydney says: "These awards, or contracts, usually last for four or five years and then break under the strain."

Mr Willis says that his Government has very much in mind the government of Mr James Callaghan in Britain in 1978-79: after three or four years of moderation in wage bargaining, the social compact fell apart during the winter of discontent of 1978-79.

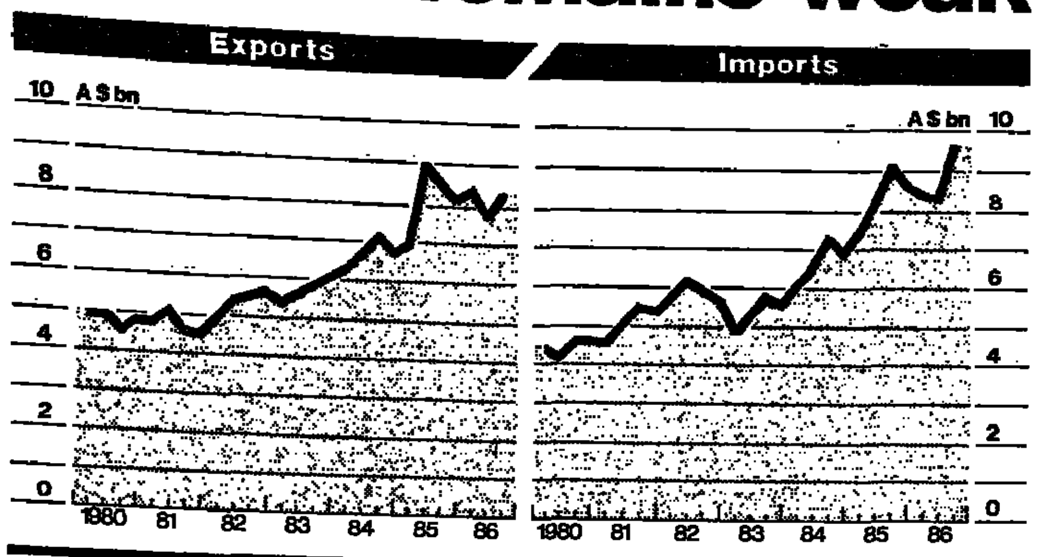
Pay rises of up to 6½ per cent have now been agreed for the 7m wage earners. The arbitration commission agreed to a flat rate of A$10 a week for everyone, equivalent to 2.4 per cent on the average wage of A$418 a week. In addition, there is to be a negotiable "second tier" of up to 4 per cent, to include productivity gains. Superannuation will be subject to arbitration later in the year. With inflation running at over 9 per cent there should be a further fall in real wages this year.

Stewart Dalby



Manufacturing industry

Investment level remains weak



AS MINISTER of Industry, Technology and Commerce in Mr Bob Hawke's Labor Government, Senator John Button has enjoyed a popularity rating not dissimilar to the pattern displayed by a roller-coaster.

Aged 53, he is a key member of the small group of ministers which has presided over a near-revolution in Australian thinking on economic policy. In the manufacturing sector, the effects have been painful for businessmen and workers, as well as the Government.

"I was very disliked," says Senator Button. "A lot of what we've done is contrary to party policy." The situation has been improving latterly, but only after some awkward experiences.

Last year, in the New South Wales town of Wangaratta, which is dependent on the textiles, clothing and footwear industry, Senator Button was confronted by townsfolk wearing black arm bands. A cardbord coffin appeared outside his hotel room.

But in this industry, as in other traditional manufacturing sectors—steel, motor vehicles, shipbuilding, heavy engineering, chemicals, plastics—change has been necessary.

"Past policies with their made-to-measure tariffs were just mad," says Senator Button. "All the other things were ignored—management, industrial relations, quality control, marketing.

"We're about change," he declares of his Government. "We've had to fix up the traditional industries, use carrotand-stick policies to make them perform better."

Part of the strategy has been to lower protection in order to make them face up to the issues. More generally, Senator Button has also tried to encourage a shift in emphasis to value-addded resource-based industries and to create an improved environment for high-technology industries.

"Our manufacturing base must in future get out of the labour-intensive activities and concentrate on adding value to raw materials in a range of industries. This is the only long-term base of national advantage," he says.

The results are slowly coming through. The turn-round in the steel industry, achieved with the help of BHP, Australia's largest company and principal steel-producer, is widely reckoned to be the Government's greatest manufacturing success.

When Labor came to power in 1983 and the world steel industry was in the doldrums, BHP was actively considering whether to close down its steel operations altogether.

Now, little more than half-way through a five-year steel plan worked out with government and unions, it is claiming to be one of the most efficient producers in the world.

The story in other sectors is less dramatic but no less significant. As Senator Button explains it, the small shipbuilding industry under Labor now enjoys a 50 per cent increase in employment.

In a reduced motor industry, notorious for its inefficiencies and currently suffering a 30 per cent drop in sales compared to a year earlier, there are still five manufacturers producing for a small market. But the long-promised shake-out is virtually certain to take place this year.

"As long as I am here, the car plan will go ahead," says Senator Button, determinedly. The plan, formulated in 1984 aims to restructure the industry and make it more efficient by cutting the number of models produced from 13 to six or less.

The minister is less happy about the Government's final position on the textiles, clothing and footwear sector, where a compromise on the target level of tariffs reflected clear political worries about the electoral impact in the towns affected.

The sector employs around 110,000 people, which is 10 per cent of manufacturing employment, and has also been one of the most heavily protected, enjoying tariffs up to a maximum of 134 per cent.

Under the Government's programme, which only starts in 1989 and lasts seven years, tariffs will be cut to 60 per cent for clothing and not less than 50 per cent for footwear. For some fabrics, the level will be 40 per cent.

Consumers will therefore continue paying more than necessary for such items, and it is quite possible that producers will still not be able to compete adequately against foreign manufacturers.

Indeed, the problems of most of these "traditional" maufacturing sectors in Australia is that they have been supplying a small domestic market and, in many cases, still performing badly, despite the protection they have enjoyed.

In the decade to 1983-84, for example, import penetration increased from 17 per cent to 25 per cent of the total domestic market for manufacturing, reflecting the declining competitiveness of Australian manufacturers.

The biggest source of these manufacturing imports is East Asia, and particularly Japan, which supplied around one-quarter in 1985. The task facing the Australian manufacturing sector is to produce more of these imports itself and to export more of its output.

This means overcoming the obstacles of the past and using the changed circumstances of the present to encourage growth for the future.

Such obstacles have included heavy rates of protection, low rates of investment, lost production because of industrial disputes, large increases in real unit labour costs and a grossly overvalued exchange rate.

Under Labor, many of these impediments are being tackled directly—some, like protective tariffs, more slowly than others, like the exchange rate, which was floated in 1983.

The level of industrial disputation has also improved under Labor, although work stoppages over trivial issues still dog some sectors. Poor management often appears to be as much to blame as recalcitrant unions.

Unit labour costs have been largely contained too, although "on-costs" add some 25 per cent to wage bills and remain a source of complaint from employers.

Despite the improvements, manufacturing investment remains weak. Business investment in plant and equipment, as a proportion of GDP, is currently at historically low levels. Among other things, it has been hampered by biases in the taxation system and expectations of low profitability.

Given all this, it is hardly surprising to find that manufacturing has an unfortunate image in Australia and is seen by many as the poor relation to agriculture and mining.

After all, its contribution to GDP and employment has slipped markedly over the past 15 years, and as a sector it has failed to match the major contribution made by manufacturing to the growth of world trade.

In the view of the Government and of manufacturers themselves, however, the sector undoubtedly has a role to play in improving the balance of payments and contributing to economic growth.

The opportunities appear to lie in building on the country's competitive advantage in producing agricultural and mineral-based raw materials, and on its highly-developed base in education, skills and technology.

Obvious examples of the first category lie in the wool, leather, wood, steel, aluminium and other raw materials sectors. This is not a simple process. Fine wool products are often made from blends of wool not produced in Australia. Environmentalists hamper the growth of a full-blooded paper industry.

The second category includes biotechnology and medical technology.

This is what countries such as Singapore, Taiwan and South Korea—or even Britain—also wish to encourage, which means it will not be enough for Australia merely to claim better skills. That is one reason why it is offering handsome tax incentives for companies to conduct research and development.

The real key to success, however, will be competitiveness at home and abroad, which in the first instance means taking advantage of the 32.5 per cent depreciation of the Australian dollar since the beginning of 1985.

So far the response of Australian manufacturers has been slow, partly because it took time for the depreciation to be passed on, and partly because of the uncertainty produced by the instability of the exchange rate.

For those manufacturers who have found local alternatives to needed capital equipment unsuitable, the option of import substitution has simply not been available. They have therefore faced a rise in the costs of investment.

Another difficulty is that some of the countries from which imported manufactures are bought, for example in East Asia, have themselves depreciated their currencies or boosted productivity in a way that allows them to remain competitive.

Australia nevertheless imports eight times more manufactures than it exports, a position which plainly can be improved.

In the field of export generation the response of Australian manufacturers to the depreciation has undoubtedly begun, but from a low base: of the country's 12 main manufacturing sectors, only four have a ratio of exports to turnover of more than 15 per cent.

Those which are fully export-oriented are obviously better placed to capitalise on the depreciation than companies which produce for the domestic market and export only when they have a surplus.

Either way, increased investment is necessary, if not at home then overseas in order to encourage export activity from a domestic base. Increased export opportunities may also arise for multinationals with subsidiaries in Australia, whose investment, pricing and marketing decisions are made abroad.

For them, Australia may now look more attractive as a place to manufacture and export from than before—as long as the regulatory environment continues to be relaxed.

Though there is a long way to go before all these changes come about, signs of progress are readily apparent. For that, and for his firmness and frankness, Senator John Button is far less openly disliked than he was a year ago.

Indeed, he remains one of the Government's key assets, and deservedly enjoys the respect both of his colleagues and of the business community.

Chris Sherwell

Ingots awaiting export from the Tomago Aluminium Smelter. Manufacturing needs to concentrate on adding value to raw materials, says the Government—"this is the only long-term base of national advantage."

Anode rods stored on overhead conveyors, before being cast on to baked anode blocks at Boyne Smelters' plant at Gladstone.

The rural crisis is " the worst situation since the depression of the early 1930s "

Farmers hit hard

WATCHING THE national Australian news in Melbourne it was a little surprising to find the second lead item was the eviction of a 30-year-old farmer, Mr. Roger Maloney, along with his tearful wife, from their farm near Garema in central New South Wales.

The prominence of one defaulting farmer on the news seemed, not so much a reflection of Australia's well-known insularity and preoccupation with its own affairs, as a real and deep concern with the current rural crisis. It is, by common consent, the worst situation since the depression of the late 1920s and early 1930s.

Mr. Wade Mahlo another farmer from Garema who turned out to support Mr. Maloney said 80 per cent of the farmers in the district faced the same fate in the next 12 months. Mr. Maloney said that "it was the interest rates which really destroyed us". He claimed he was paying over 20 per cent.

Mr. Mahlo's prediction may or may not turn out to be too pessimistic. Prospects are varied, but it is true that a considerable number of farmers such as Mr. Maloney are being increasingly squeezed in a vice of sharp and steadily falling prices of commodities, particularly wheat, on the one side, and continuously rising costs on the other. These include higher input costs for items such as oil and fertiliser, partly because of duties, but also because imports are more costly after the 25 per cent devaluation of the Australian dollar against the US dollar since January 1985. But more especially they centre on high interest rates. The farm sector faces average borrowing rates of 17.6 per cent this year, as the Government tries to keep the dollar steady, and struggles to get its budget deficit under control.

To these costs the National Federation of Farmers would add the escalation in wages, although the Australian council of Trade Unions would almost certainly not agree with them.

The agricultural sector remains extremely important to Australia. It accounts for just under 5 per cent of Gross Domestic Product, with 376,000 workers on the land (around 6 per cent of the work force). Exports of agricultural goods, still account for just under 40 per cent of the total, some 36 per cent crops and livestock, 2 per cent fish and 1 per cent forest products.

According to Dr. Robert Bain, the Director of the Bureau of Agricultural Economics (BAE), the problem on the demand side is not one of volume but a question of getting value for the products.

"You must remember we export well over 80 per cent of everything we produce. With the exception of raw wool, where we are the leading producer and can set the price, we are price-takers," he says.

"The fact that the US and the EEC subsidise their farmers means we face shrinking markets and a declining price for our goods particularly wheat and cereals. There is very little subsidy of farmers here—in fact, virtually none."

The terms of trade for Australia's farmers, defined as the ratio of prices received to prices paid, has declined steadily in the 1980s. With 1980-81 as the base year of 100, the index fell to 89 in 1981-82 and moved down to 73 in 1986-87.

The index of rural production in terms of real net value declined from 100 in 1980-81 to 56 in 1986-87 (the year being end of June to end June.)

Although incomes have picked up a little in 1986-87, by 5 per cent to A$16.4bn compared with A$15.6bn in 1985-86, the projection of the BAE until 1991-92 is that gross rural income will decline steadily to A$13.8bn in that year in 1986-87 prices. Costs should be trimmed somewhat from A$12.7bn in 1986-87 to A11.5bn, but this will still leave the net value of rural production at A$2.3bn compared with A$3.6bn in 1986-7.

What this prices-led shake-out on the demand side has meant when combined with higher costs on the supply side is a gloomy picture of squeezed margins, rising indebtedness, falling numbers of farms and an increasing number of bankruptcies.

Mr John Kerin, the Minister for Primary Industry, reckons that farm property values have dropped by 40 per cent in the past four years and incomes possibly by as much as 50 per cent.

Dr Bain at the BAE, says that farm properties are closing down at the rate of 1 to 2 per cent a year. In 1986-87 there were 171,000 farm properties, compared with 179,000 in 1983.

He estimates that 25 per cent of these farms have no debt at all. Some 50 per cent have debts of around A$40,000 on average while the bottom 25 per cent have debts of A$100,000 ranging up to A$300,000.

" With interest rates nudging 20 per cent some of these guys have to find A$40,000 in interest each year before they can think about working capital," says Dr Bain.

The total institutional debt of farmers is put at A$8bn. Worst-hit of all were those farmers who, at their local banks' advice, borrowed Swiss Francs at 4 per cent. Then came the devaluation of the dollar and the cost of servicing these debts more than doubled.

The BAE reckons that at least 25 per cent of farmers are experiencing negative incomes and the figure could be a lot higher. Some 10 to 20 per cent of farms could be a risk.

The problems among farmers are not evenly spread. They depend upon product mix, managerial competence—and luck. A lot of the indebtedness stems from the drought years of 1982-83. Many farmers borrowed then and have not since been able to climb out of debt.

Grain generally and wheat, in particular, is the main current troubled area. It is here that the US and EEC are forcing down prices with sales of subsidised surpluses. There are also fears however, that in the future, subsidised sales of US grain fed beef and dispersals from the EEC beef mountain could cut into Australian markets, particularly in the Far East.

Australia's main exports broke down roughly as follows in 1986-87 wool A$3.4bn, wheat A$2.2bn, meat and live animals (mostly beef) A$1.9bn and others (rice, sugar, dairy etc A$3.6bn). Whereas wool and meat and live animals both increased in value terms by 12 per cent in 1986-87, wheat fell by 25 per cent.

Many farmers are moving out of producing wheat exclusively and are going into mixed farming, that is producing some wheat and other cereals and livestock. Other cereals, of which the main ones,were barley oats and sorgham accounted for A$578m in exports in 1986-87. The BAE estimates that only 18 per cent of all farmers are now solely wheat and crop specialists.

The National Farmers Federation feels there are moves that the Goverment could make to help alleviate the distress.

Mr Garry Goucher, the Chief Economist at the NFF reckons that the protection of secondary industry imposes an annual off-farm cost of A$1.5bn on the sector. The NFF has called for tariff cuts which would allow cheaper machinery purchases as well as cheaper spare parts and chemicals.

The Farmers Federation also argues the Government should bring down the level of inflation which at 9 per cent is several times the level of OECD partners, by reducing the budget deficit.

This would help bring interest rates down.

The Federation has also called for action against trade unions. It says that Australia's centralised and inflexible wage fixing arrangments should be replaced by a system based on common law contracts between employer employee, and there should be penalties for breaches of such contracts.

The NFF in the end, though, along with almost everyone else, agrees that many of Australia's agricultural problems are outside its control. This means that the consumer will spend eight times the market price for his rice. Dr Bain says his most imediate worry is the US Food Security Act, the so-called Farm Act. Under it the US government is spending $2bn on its Export Enhancement Programme. This means in the short-term the US will subsidise wheat and beef exports to third world countries by undercutting the Australia prices by something between $10 and $20 a tonne.

To counter these subsidised prices, the Australian Prime Minister, Mr Robert Hawke at the recent conference of world leaders at Davos, in Switzerland, proposed a seven point programme to stabilise world commodity prices. It included

1. A commitment to halt subsidy escalation and to freeze and progressively reduce the gap between administered internal prices and international market prices for farm goods.
2. An early reduction in administered prices for farm producer prices for 1986-7.
3. The narrowing of the price gap to be expedited by interim measures aimed at containing supplies and quarantining stockpiles where prices remain high.
4. Farm income support to be separated wherever possible from producer prices for farm output.
5. The development of principles for national governments to liberalise world trade.
6. An accord on international agricultural reform to be agreed at the economic summit in Venice in June.
7. Negotiations on agriculture, within the Uruguay Round, of effective disciplines on the operation of direct and indirect agricultural subsidies and support programmes.

All these measures if they are adopted at all will take time. As far as reform within the Gatt Uruguay round is concerned, as Mr Goucher says, " there is no point holding your breath."

Wool, wheat and beef will continue to be produced in Australia but almost certainly in a slimmed-down way. It will be the middle-1990s before prices begin to rise, if then. Meanwhile, the country faces a painful period of adjustment for industries which were once automatic money-spinners.

Stewart Dalby

One of many motorcycle cowboys, sheep farmer Laddie Richardson, of New South Wales, drives his flock along an old stock route. Drought hit many farm areas last year. Now the sector is struggling with rising costs, high interest rates and falling commodity prices.

Mining industry

Profits rising at last

AUSTRALIA'S MINING companies are getting to grips with the difficulties of living with depression in most mineral markets. Production costs are falling, new investment is steady, and profits are at last picking up.

It has not been an easy struggle. Miners and mine managers have often opposed the drastic changes in working practices which have been necessary. Senior executives have sometimes been lulled into a false sense of security by the decline in the Australian dollar which offset the worst effects of the decline in US dollar commodity prices.

But in the end the recession, particularly in non-ferrous metals, has been so prolonged that managers and trade union leaders alike are agreed that the industry has to be more productive, particularly if the depreciation of the Australian currency is halted or reversed.

There are many examples of how individual companies are cutting manpower while maintaining or even increasing output. Earlier this year CRA secured the reluctant agreement of workers at Broken Hill, New South Wales, for reorganising the lead and zinc mine. Faced with the threat of closure at the ageing complex, trade union leaders agreed to see the workforce fall to 1,450, compared with 2,800 in 1985.

At MIM Holdings' mines at Mount Isa, Queensland, 4,600 workers shift 10m tonnes ore when 5,700 were once needed to move 4m tonnes.

In the iron ore mines in the Pilbara, in northern Western Australia, operators have forced through changes in working practices to improve productivity in ways which would have been unthinkable in the 1970s. Mr John Ralph, chief executive of CRA, says: " There's been a sea-change in relations between managers and workers."

There is certainly a long way to go in improving conditions at some mines, as a bitter dispute at Peko-Wallsend's iron ore mine at Robe River showed earlier this year.

Productivity in Australian coal mines is notoriously poor. The number of days lost per 1,000 employees in 1985-86 was more than three times higher in coal than in the rest of the mining industry. Mr Chris Trumbull, a partner of Sydney stockbroker Potts West Trumbull, says: " It's only the spectacular quality of the resources which has kept the coal mines at break even."

National trade union leaders recognise the need for change. Mr Paul Mackay, industrial officer with responsibility for mining at the Australian Council for Trade Unions, says manning levels were in some cases inappropriate and demarcation lines had brought inefficiency to mining. The difficulties inevitably lie in winning over miners who often work in harsh conditions in isolated communities which have developed fiercely independent cultures of their own.

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Government plans to attract more business settlers

Immigration levels are set to rise

"POPULATE or perish" was the famous dictum of the father of Australia's post-war immigration programme, Arthur Calwell. Faint echoes of his words are now filtering through the caucus room of Prime Minister Bob Hawke's Government, though the justification for increased immigration has changed from a supposed threat from its populous Asian neighbours to the threat of economic stagnation.

The Hawke Government has broken from the traditional Labor Party response of cutting back immigration in times of high unemployment. The break was initiated by former Minister for Immigration and Ethnic Affairs, Mr Chris Hurford, who had gained widespread support for a long-run, migrant-led economic recovery. Mr Hurford managed to raise migrant arrivals when the Australian economy was sluggish and unemployment rates were rising.

Labor Party president Mr Mick Young, who was recently appointed minister following a minor Cabinet reshuffle, is expected to carry on the torch. He said it had been a mistake to let the immigrant numbers drop in the past.

"This government believes in stabilising the migration programme by allowing steady increases in immigration in the foreseeable future, both on economic and humanitarian grounds," he says.

Underpinning the Government's support for increased immigration is an official study which found that a larger flow of immigrants would boost economic growth in the long term. The three-year study, jointly sponsored by the Immigration Department and the independent Committee for Economic Development of Australia (CEDA) concluded that higher immigration would lead to higher per capita investment, higher labour productivity through economies of scale, and a short-term worsening of the external account which would be partly offset by greater capital inflows.

The study also gave the Labor Party ammunition against the argument that immigrants take jobs from Australians. It found that immigrants generally created new jobs by increasing the demand for goods and services, although they may disadvantage some Australian job-seekers in specific areas.

But unlike Mr Calwell, who successfully sped up immigration unopposed, the current Government is treading on the issue very cautiously. There is some opposition to opening Australia's floodgates to foreigners and the Hawke Government, which excels in computing the political costs of every move and policy, is moving very carefully.

Trade unions, the backbone of Labor Party support, are generally averse to immigrants whom they see as rivals for jobs. Most unions stress they do not object to immigrants themselves but complain that the Government does not have enough apprenticeship programmes to absorb new arrivals in the work force.

Many Australians, subconsciously feeling guilty about the whites' dominance over the original Aboriginal residents, may publicly support increased immigration. But privately they fear, at times envy, the hard-working foreigners who often prosper after settling in Australia.

An influential group of academics is also warning the government against more immigrants. In the editorial and feature pages of some major newspapers, academic writers quite frequently question the need to boost immigration. Mr Glen Withers, professor of economics at Melbourne's Latrobe University and who closely watches immigration issues, says the core of these academics are radical economists, especially from Sydney University. He says the group's stance rests on the argument that immigrants in Australia, somewhat like the guest workers in Europe, are exploited and relegated to low-paying unskilled jobs.

Prof Withers says such an argument is flawed because most studies have shown that later-generation immigrants have assimilated well in Australian society, often holding responsible and lucrative jobs and mixing well with neighbours and the community.

The Government's concern for the political cost of a liberal immigration policy is demonstrated by the extreme caution it exercises in drawing up the numbers. Last year, the former minister Mr Hurford's proposal to raise immigrant intake to 95,000 was readily accepted by the Cabinet.

But he failed to get backing for specific increases for the subsequent years. He proposed an intake of 110,000 in 1987-88 and 125,000 in 1988-89, and in the long-term to more than 160,000 a year or 1 per cent of the total population.

Cabinet decided that specific numbers would be drawn after community response had been assessed. The newly-appointed Mr Young is not yet prepared to state the figure he would propose for 1987-88 but he said Cabinet had agreed on a slight increase.

In order to make increased immigration more palatable to Australians, the Government has modified immigrant assessment procedures which now favour the young, skilled, educated and employable English-speakers. And in order to soften opposition from unions, the Government introduced an occupational sharing system under which foreigners applying outside the family reunion programme must possess skills not adequately filled by Australians.

Mr Young's appointment itself seems designed to maximise Labor's political advantage from what is called the ethnic vote. When he was shadow minister for immigration, Mr Young had argued strongly for greater post-arrival services for immigrants.

Now he is minister, he could be expected to set the same argument in motion again. He can be expected to devote more time and resources stroking the backs of settled immigrants and keeping them happy.

Mr Young himself said: "It is not good to bring people into the country if the services are not adequate to get them settled down and if they become disadvantaged."

Some Labor Party members have been concerned that the Hawke Government's standing with the ethnic communities may have been damaged by recent budget decisions such as the cutback in funding for English-as-second-language courses and the absorption by the Australian Broadcasting Commission of the Special Broadcasting Service, a television station which broadcasts foreign shows.

It was under a Labour Government that the importance of the ethnic vote was first recognised. In 1972, Prime Minister Gough Whitlam appointed Mr Al Grassby as immigration minister whose policy centred on welfare for the increasing number of immigrants.

In the late 1960s, migrant arrivals rose to about 180,000 a year and social services collapsed under the weight of numbers. Mr Grassby seized the opportunity and chased the ethnic vote with the slogan, "The Family of the Nation."

Under Mr Hawke, an Office of Multicultural Affairs was set up and attached to the prime minister's own department. A strategy is being drawn for 1987 with Mr Hawke himself taking a prominent role in activities aimed at chasing the ethnic vote.

Apart from social services for immigrants, another area where the new minister could be expected to keep a high profile is in business immigration. This category of immigration had yielded the greatest benefit to Australia yet successive governments have failed to cash in on it.

There had been unsatisfactory rises in the rate of arrivals of business immigrants. After a surge by 36.4 per cent in 1983-84, the rate of increase dropped dramatically to 6 per cent in 1984-85. Last fiscal year, the rate only slightly improved to 15 per cent.

The benefit that could be derived has not been lost to the Government. A 1984 survey by the Immigration Department showed that 90 business immigrants transferred A$88.2m (US$57.3m) to Australia and that 48 of the businesses generated exports worth about A$200m (US$130m) between them.

Mr Young said he was considering proposals to relax existing rules in order to attract more business immigrants. Under current procedures, applicants need A$500,000 (US$325,000) to invest in a new venture in Australia or to take over approved enterprises. An entrepreneur possessing "exceptional" skills or new technologies could come in with only A$150,000.

The proposals under consideration include a transition period under which an applicant would merely lodge the required money, come into Australia to explore business opportunities and later decide whether or not to tie up his money and settle in Australia.

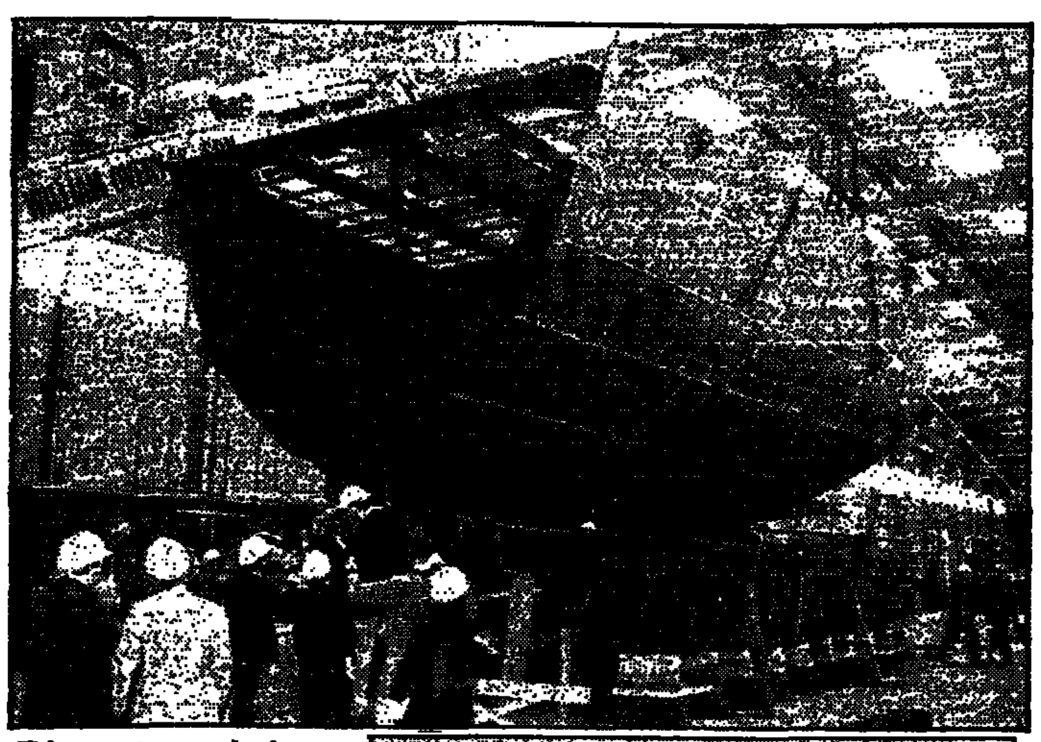
Emilia Tagaza

Australia's migrant intake

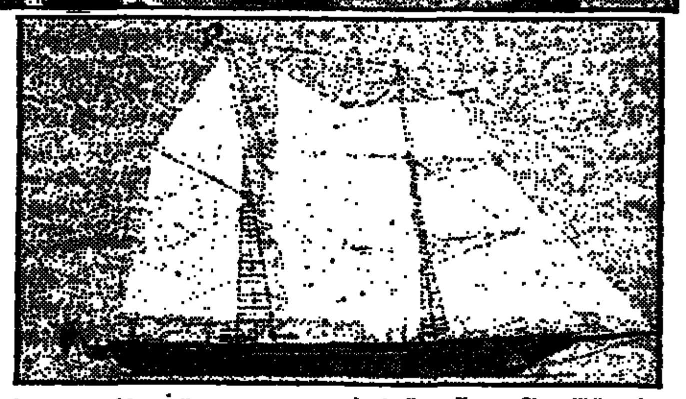
Total settler arrivals

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Family	20,372	17,225	18,359	19,570	21,769	26,952	33,957	41,116	49,774
Refugees & SHP	9,597	13,450	19,954	21,847	21,917	17,054	14,769	14,850	11,840
Other	43,965	38,074	42,958	69,773	75,014	49,171	21,079	22,121	30,796
Total	73,934	68,749	81,271	111,190	118,700	93,177	69,085	78,087	92,410
Proportion of total intake									
Family	27.6	25.0	22.6	17.6	18.3	28.9	48.6	52.7	53.9
Refugees & SHP*	13.0	20.0	24.6	19.6	18.5	18.3	21.2	19.0	12.8
Other†	59.4	55.0	52.8	62.8	63.2	52.8	30.2	28.3	33.3
Total	100	100	100	100	100	100	100	100	100

* Special Humanitarian Program
† Includes business immigrants and immigrants under occupational share system
Source: Government statistics



Bicentennial schooner takes shapes



THE HULL of a 35-metre schooner—Britain's gift to the youth of Australia to mark the country's bicentenary—nears completion (above) at Brooke Marine, Lowestoft, one of Britain's oldest shipyards.

The steel-hulled vessel, featuring the best of British maritime design traditions, will set sail with her Australian/British crew in late July and take part in the Tall Ships Race from Hobart and arrive in Sydney for the bicentennial celebrations, when Australia will commemorate the founding of the first British Settlement in 1788.

The schooner is suitable for use in Australia for both sail training and maritime scientific exploration. Whereas she is technically a brigantine, the term schooner has been used to describe her. She will be a fast, modern, safe vessel, with the roots of her design in UK maritime traditions.

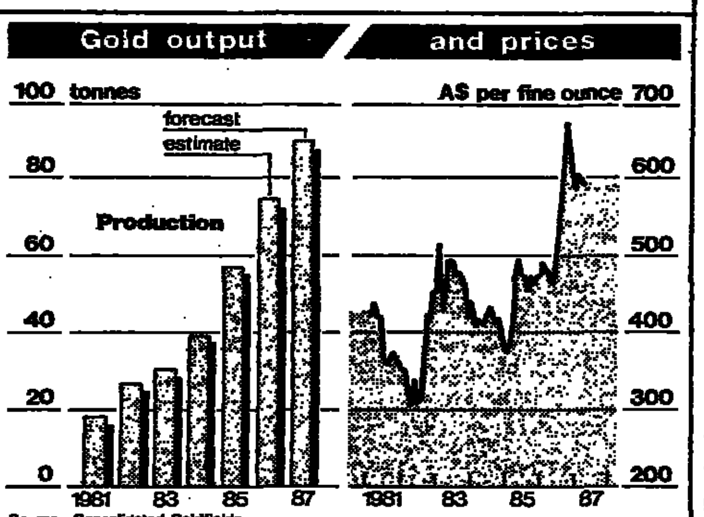
She will normally be used around the coasts of Australia and adjacent waters for sail training purposes for periods of between three and 14 days' duration and will be operated by a Royal Australian Navy crew, together with voyage crews of up to 24 young people chosen from all walks of life.

Construction will be completed by May this year when 12 young Australians will arrive in Britain, and will be joined by an equal number of young people from the UK, together with a British captain and British and Australian officers. She will "work up" in the months of June and July 1987 on the British home coast, before sailing in August for Australia. She will visit state capitals and then take part in the Tall Ships Race from Hobart to Sydney, prior to the Bicentennial Day celebrations on January 26 1988.

The vessel is being funded by a donation from the UK Government together with financial help from a wide spectrum of British commerce and industry as well as individual donations.

Mining outlook

Continued from page 8



Source: Consolidated Goldfields

Mr Brian Loton, managing director of BHP, the steel, energy and minerals group, says the productivity improvements in Australian industry reflect similar improvements in heavy industry in the UK, the US and elsewhere. He adds: "I am totally convinced we can do a great deal better."

The mining companies will have to do just that if they are to bring their financial performance back to respectable levels. In 1985-86, the average net return on equity funds in the industry was under 6 per cent for the fifth year running, according to survey published by the Australian Mining Industry Council.

The shortage of equity funds flowing into the industry, except for gold mining, has forced groups to raise borrowings to record levels where they total 127 per cent of shareholders' funds.

Nevertheless, says the survey, there is room for hope. This is borne out by stockbroking analysts who forecast a sharp improvement in profits this year for a number of reasons.

First, the benefits of productivity improvements should continue to flow through; then there have been modest increases in the prices of some products, such as zinc and mineral sands. Thirdly, rising gold production should put a shine on the results of a number of major groups, notably Western Mining, as well as fuelling the rise of a new generation of companies, such as Barrack House and Australian Consolidated Minerals. Finally, a number of groups wrote off several years' worth of accumulated foreign exchange losses in 1985-86 and are unlikely to have to do the same again.

To prove the point some strong results are already coming through. Renison Goldfields Consolidated recently reported a 115 per cent rise in interim profits, due largely to its mineral sands interests.

In the US the quest for prosperity, and even survival, in minerals in the 1980s has led to sharp overall cuts in capacity. In Australia, where orebodies are generally larger and often more recently developed, companies have tried to maximise output as one way of reducing unit cost. As a result, although there have been some closures, overall output of most base metals has been maintained. In coal and iron ore output has risen thanks to investment in new mines and in expanding existing ones.

In 1985-86 coal was 20 per cent higher than in the previous year at 155m tonnes; iron ore production rose 7 per cent to 98m tonnes. However, this year iron ore producers will be hit by sharp cuts in orders from the depressed Japanese steel industry, the biggest customer.

The Australian gold industry has already become a stock market legend in the 1980s, with fortunes made and lost following junior companies mainly in Western Australia. The major groups were left standing in the rush to develop new mines, although several have since caught up, notably Western Mining.

Overall output, which was under 20 tonnes in 1980, could reach 100 tonnes in 1988—Australia's centenary year.

The stock market ratings given to some of the gold producers can exaggerate their economic importance. In 1985-86, gold accounted for just 2.3 per cent of Australia's export earnings, compared with 6 per cent for iron ore and 16 per cent for coal. However, with returns on capital of 100 per cent not uncommon, it is no wonder that investors have little time for anything else.

Stefan Wagstyl

Mining companies and trade union leaders are agreed that the industry has to become more productive. Meanwhile, some modest price increases in some products, such as zinc and mineral sands, are evident

Tourism earnings

From strength to strength

AT A time when Australia's traditional primary and resources industries are in the doldrums, one of the newer foreign exchange earners, tourism, is going from strength to strength.

While the country's ranking as a world exporter fell from 12th to 23rd in the decade 1973 to 1983, tourism increased its foreign earnings on average by 15 per cent each year from 1980 onwards and stands among the top three export industries.

Australia in 1986 had 1.4m foreign tourists and is hoping for 2m by 1988, when the country celebrates the 200th anniversary of the first European settlement. This compares with 500,000 arrivals in 1975.

At the same time the number of domestic travellers is growing, helped by the depreciation of the Australian dollar. Directly or indirectly, total travel spending is estimated to support 400,000 jobs.

From international tourists the country earned A$1.5bn in 1986, over A$1,000 a head. If the A$1.2bn paid for Qantas tickets in Australia is added in, then total earnings were A$2.7bn, making tourism the second or third largest foreign exchange earner.

Why has tourism in Australia suddenly come alive? Part of the reason is that until recent years Australialike New Zealand, enjoyed great prosperity from high world prices for its commodity exports. It did not need to think about alternative means of earning a livelihood. In both countries there was a take-it-or-leave-it attitude to being discovered by the rest of the world.

With the terms of trade for their main exports turning aggressively against them, Australians have had to drop their insularity, becoming more aware of the wider world and go out and "sell themselves." To the overseas tourist there is quite a lot to sell.

In the US, the Tourist Commission has, since 1984, been running a series of phenomenally successful advertisements featuring Mr Paul Hogan, or "Hoges" as he is known. He is the lean bronzed Aussie who appears in the Fosters beer advertisements in Britain talking "strine" (or Australian slang) one liners. More recently, he starred in the hit film "Crocodile Dundee."

The advertisements (which he did free because he is apparently a great patriot and genuinely believes Australia is "Godzone" or God's own country) made him a cult figure in the US. The early advertisement had him saying "You look like you need a holiday," and wound up with the words, "C'mon over, I'll throw another shrimp on the barbie" (barbecue).

The Americans took up the invitation in their thousands. Last year 255,000 visited compared with 200,000 in 1984. This year 300,000 are expected and although Americans still rank second after New Zealanders (340,000 visitors last year) they should achieve the top slot soon.

Figures from the office of Mr John Brown, the Minister for Sport, Recreation and Tourism show visas granted in December 1986 were up by 55 per cent.

Mr Brown says that "the Hogan adverts represented a revolution in travel advertising. They've won lots of awards, incidentally. What they did was to emphasise the friendliness and character of the people. Most advertising in the past has been a question of pretty views and picture postcards."

The America's Cup sailing race which was run in Fremantle on the west coast earlier this year and late last, also gave Australia a boost. Denis Conner, the victorious skipper of Stars and Stripes has become a salesman for West Australia. Back in the US he has extolled the country as a safe, friendly, politically stable country. At time of terrorist activities in Europe and the Middle East this has an impact on Americans.

The ATC spends some A$17.8m of its A$29.8m budget on promotion. A large proportion of this goes on the Hogan advertisements.

No less successful, however, has been the promotion drive in Japan. This campaign known as the "I'm Aussie" programme stressed the wide open spaces of Australia and the adventurous holidays that are available.

One of the advertisements has a very beautiful young Japanese girl standing in the sunset in front of a glowing Ayers Rock. This monolith is found in the middle of the country in the middle of a desert. For the Japanese coming from their crowded cities it is almost de rigeur to climb the rock if on a trip to Australia. It is a steep 1.6 km climb and just over 1,000 ft. The climb can also be dangerous. When why they were doing this, two young Japanese replied it was their "life's dream."

Japanese arrivals have increased dramatically. Last year there were 155,000 tourists, compared with 119,000 in 1985 and 80,000 five years ago. In the visitors' league table, Japan still lies behind the rest of Asia (193,000 last year), the UK and Ireland (173,000) and the rest of Europe (158,000), but Japan is clearly closing fast. The number of visas granted during December 1986 rose by nearly 70 per cent.

Mr Bill Gray, the Media Director of the Australian Tourism Commission, says the promotion is targeted at Japanese agencies. There is a huge market, he says, in young single women workers—they often earn salaries as secretaries of A$30,000, yet live at home. They have money to spend. Once these young Japanese women are "captured," they often come back to Australia on honeymoon. It is said that Cairns, on the tropical northwest of the continent, opposite the Great Barrier Reef, is the second most popular foreign honeymoon spot for Japanese after Hawaii.

Australia has been sold as an unexplored continent, almost the last wilderness whose people are friendly and welcoming. But it also has the right facilities for tourist comfort. In Mr Brown's phrase you can take the choice between "the beach or the bush."

The Gold Coast, stretching south of Brisbane, is a ribbon development rather like Miami. There are large and small hotels, holiday homes, beach restaurants, bare and other leisure venues. The North east is tropical and good for diving and big-game fishing.

More than 75 per cent of tourists enter through Sydney, however—and many are content not to move on.

The famons Sydney Opera House, the harbour bridge and the old restored Rocks area (where the first convicts arrived) are almost obligatory visits.

Nearby, there are also safe beaches, fishing facilities and the Blue Mountains for adventure holidays. Further South there is ski-ing in the Snowy Mountains for three months of the year. Close to Sydney are the Hunter Valley vineyards where a very pleasant day out can be had.

Welcome though the increased tourist arrivals have been, however, they have aggravated and highlighted problems.

Although space and distance are one of the attractions of Australia, the travelling involved can bite twice at the pocket and the nerves. Australia is a long way from anywhere—and everywhere in Australia is a long way once you get there. As Mr Paul Ruby of the New South Wales Tourist Commission comments: "People come here on a business visit, thinking they will quickly nip up to Darwin or Ayers Rock. This is like going to London for a week and hoping to take in Stockholm, Budapest, and Morocco."

Australia operates what is known as a "two-airlines policy." Qantas, the international airline, owned by the Government, is allowed to carry only its own passengers, not those from other international carriers.

Passengers have to take either the state-owned Australian Airlines, or the privately-owned Ansett Airlines. Although both would deny that their prices are out of line with other countries, it does seem to many travellers that they have a restricted choice in terms of scheduling and have to pay quite a high price for domestic flights.

Another problem is the lack of facilities at the main gateway airports and Sydney, in particular, which has become grossly overcrowded and lacks adequate reception and information services for the volume of tourists.

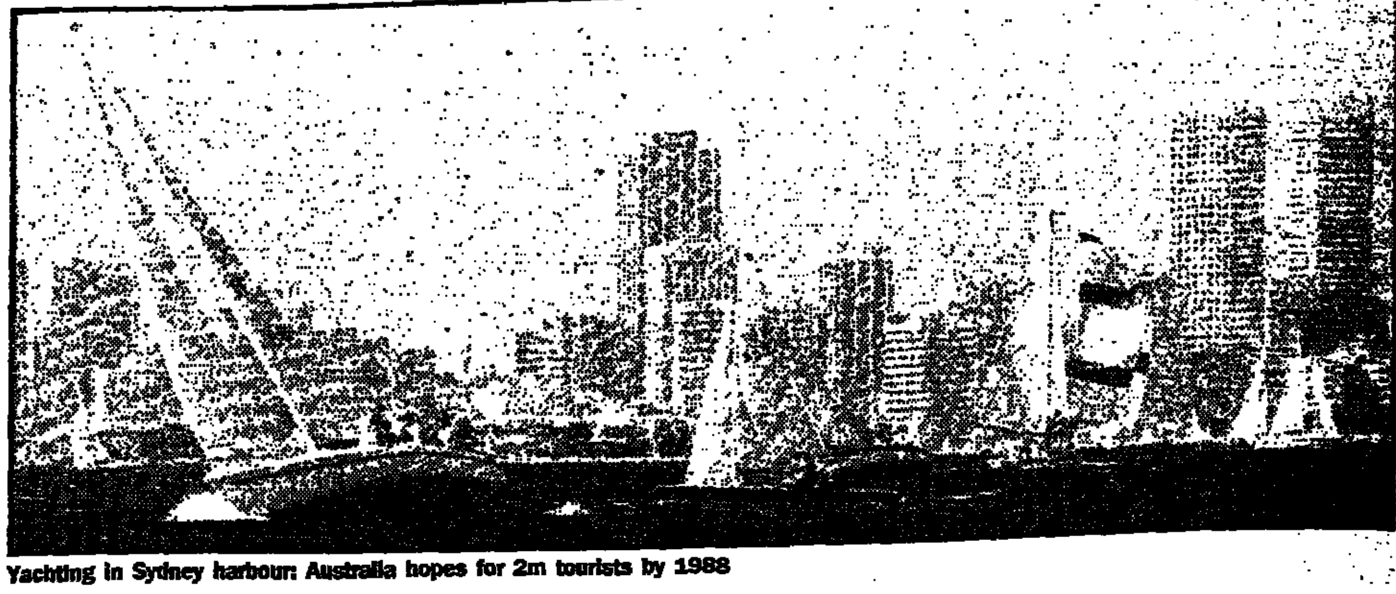
There are ten hotels of international standard in Sydney with 4,060 units. This is clearly not enough, since year-round occupancy rates are effectively 100 per cent. There is a programme of more hotel building, but there is very evidently immediate pressure on space.

Australia, like New Zealand, has never before had a mass tourism market, so there is no long tradition of service. The standard is often below what international travellers have come to expect, but the situation is improving as training schemes go into effect. Furthermore, rising unemployment is releasing workers into this particular sector.

But it is not just the attitude of management and staff that effects tourism potential—there are also a number of other difficulties. Penalty rates for weekend work, negotiated by the unions, can often mean that prices go up at weekends. In the big cities there are also archaic licensing laws and restricted shopping hours in force.

It has been estimated that Australia currently only has 2 per cent of international tourist arrivals. A recent Economist Intelligence Unit survey said that world tourism should increase by 3.5 per cent up to 1995. Clearly Australia has great potential, but as the Australian Tourist Commission has warned, immediate and effective action must be taken concerning the infrastructural problems if this international tourism potential is to be realised.

Stewart Dalby



Yachting in Sydney harbour: Australia hopes for 2m tourists by 1988

Hawke hoists the storm sail

Continued from page 1

feel is far too high even though the average rates of tax are not out of line with most of their trading partners; decentralisation; smaller government in a country over-burdened with federal, state and local bureaucracies.

In a sense one of Mr Hawke's current major political difficulties is also one of the most encouraging signs that his Government's measures are starting to bite and set the country on the path to recovery. The emergence of the ageing maverick, Sir Johannes Bjelke-Petersen, Prime Minister of the right-wing and sparsely populated state of Queensland, onto the federal political scene indicates something is up.

"Sir Joh" who is 76, has stirred up the political scene by opting to make his National Party a federal party with himself as candidate for Prime Minister and, failing that, the kingmaker with a policy veto behind the scenes of the present opposition coalition parties which find themselves in extraordinary disarray.

His promises are sweeping, including a flat rate 25 per cent income tax, cuts in welfare spending and the restoration of Australia to a place near the top of the world's economic order. He has hardly any policy details and those that do exist change in tone and degree almost daily. When asked how he will tackle some of the country's intractable difficulties he responds with some variant of "Don't you worry about that."

His presidential-style campaign, which is a mixture of buffoonery and rhetoric, appears to have no chance of success. But it provides the sort of temporary colour and escapism often sought in countries when the going gets really tough.

In the end the political and demographic composition of Australia means the election result hinges on the volatile voters in the fifth of the population which roughly comprises the "families under 35" group. Whatever else they do, they are not likely to bring Sir Joh to power, even though they have borne the brunt of the harsh recovery measures.

On present trends they seem more disposed towards the opposition, led by Mr John Howard. He is ahead in the polls and needs to gain just eight more rural seats to win—at a time when farming communities are seething about US and EEC agricultural policies.

Mr Howard's problem, apart from an unimpressive media persona, is that the Labor Party—to all intents and purposes now a Euro-Scandinavian social democratic party—has pinched his policies, leaving him little option but to trail along behind offering the same dinner with a different sauce.

This not necessarily against Australia's interests although it may be politically unappetising. What Australia needs more than anything is stability including a degree of political and strategic continuity.

What Australia does not need now is some favourable and unexpected wind, such as suddenly soaring commodity prices, to fill its sails and sweep it out of trouble before all the necessary structural adjustments have been completed. History has repeatedly shown, since the arrival of the first wretched convicts, that Australians are hopeless managers of success but excellent managers of adversity. They are starting to prove it again which is as good a cause as any for guarded optimism.

Wine exports

Ever-improving sales

AMONG THE diligent export teams working for Australia's major wine producers there is a justifiable sense of excitement over the ever-improving sales abroad of the country's highly-palatable wines.

But for the vineyards at hime—in the valleys of New South Wales, Victoria, South Australia and Western Australia—the swelling foreign demand is merely a welcome silver lining on a darkened cloud.

For them, the high domestic sales growth of the 1970s has slowed in the 1980s, over-production has persisted, costs are rising and taxes have increased. Like most Australian farmers, many wine-growers and producers are now confronting enormous financial pressures.

On top of this, the industry, largely through its own errors, faces new regulations affecting the market for "coolers"—the highly-successful mixtures of wine and fruit juice which latterly have sustained what buoyancy there has been in wine sales.

The recent export performance of Australian wines is nevertheless astonishing by any standards. Figures for calendar year 1986 from the Australian wine and brandy corporation, which promotes exports, show a 74.7 per cent increase in shipments over 1985, to 16.3m litres.

One fifth of these shipments went to North America, with sales to the US rising 107 per cent. In Europe demand was centred principally on Britain, which took 86 per cent of the regional total, and Sweden, where the exporter's task is simpler because local sales are handled by state agencies.

The other principal markets are in Japan, where the confusion between Australian and contaminated Austrian wines is wearing off, and in neighbouring New Zealand, long a mainstay of foreign sales.

Though the volumes are small, the increases are a tribute to a successful Australian export effort. But they have been helped by rising consumer interest abroad in things Australian, a factor which has also helped the country's tourist industry.

Even more importantly, the increases reflect the strong price competitiveness created by the depreciation of the Australian dollar, which was floated in 1983 and then weakened substantially between the beginning of 1985 and the middle of last year.

The currency has since rallied—on a trade-weighted basis against a basket of other currencies it now stands at 55 (1970=100) compared to a low point of under 50 last July. But this is still well below the level of 81 seen at the end of 1984.

Yet the fact remains that, despite the improvement, exports are only a tiny fraction of overall Australian wine sales. In the year 1985-86 (ending in June), they amounted to only one-third of 1 per cent of overall sales.

In the same year the grape harvest was a record 906,600 tonnes, a 1.9 per cent increase on the previous year, which was itself a record. Of this total, almost 510,000 tonnes was used for winemaking, a decline of 8.8 per cent on 1984-85.

Such is the structure of the Australian industry, close to 60 per cent of this was crushed by a dozen large wineries. So small are the rest that 280 "boutique" wineries crush around 2½ per cent of the total.

Unsurprisingly, it is the large wineries which are the chief exporters—notably Penfolds, which is part of Lindemans, the Adelaide Steamship conglomerate, which is owned by Philip Morris of the US, and Orlando Wines, owned by Reckitt and Colman of the UK.

Of the wine produced, less than one-quarter is sold in bottles as premium and beverage wines or as vin ordinaire. The remainder goes into bulk wines, soft-packs (also known as casks) and flagons. All compete on an equal footing with imported foreign wines.

The soft-packs have been the major growth area. Sales have risen from 32m litres in 1977-78 to 163m litres in 1985-86. But the high growth rates of the 1970s, when the country really succumbed to the wine-drinking "bug," hav since tapered off as the market has reached "saturation."

Australians now consume almost 22 litres of wine per head per year. This puts them into the top 20 wine-consuming countries in the world, ahead of Britain's 10 litres per head, but they still fall well behind Italy, Portugal, and France, where consumption is above 80 litres per head.

Over the past year sales have been helped by the new "cooler" market. Following a fashion begun in California, Australian wine producers have made and marketed a range of wine-and-fruit-juice mixes which have proved remarkably popular.

As a result sales of bulk wine increased from 5.8m litres in 1984-85 to 17.5m litres last year, or around five per cent of the market.

Of this increase, the Australian Wine and Brandy Producers' Association, which represents growers, estimates that 11.5m litres went into the new cooler market.

Until January it was certain that this figure would rise again this year. But a major controversy erupted over the product after a Canberra wine merchant refused to stock a newly-marketed line of coolers.

The wine merchant's complaint focused on the product's packaging, for the cooler was in a 250ml single-serve tetrapak complete with a straw. Even more than existing coolers, which were packaged in casks and bottles and clearly aimed at the youth and female markets, this appeared to be aimed at the young.

Sure enough, it attracted the wrath of legislators and the anti-alcohol lobby, and stimulated a raging controversy which saw several state governments ban the sale of coolers and probably some longer-term damage to the market.

Lindemans, the manufacturers, initially resisted the pressure from the state governments and from its counterparts in the industry, but finally withdrew the product.

To pre-empt further pressure and keep the market alive, the cooler producers were forced to agree to new regulations which reduced the alcohol content of coolers, renamed them "wine coolers" and confined their sale to licensed outlets. The market is now very much at a cross-roads.

All this has come on top of last year's budget decision by the Government to double the sales tax on wines from ten per cent to the standard rate of 20 per cent.

The tax was first imposed on the industry in 1984, and was largely absorbed by producers because of the oversupply of wine and the competitiveness of the market.

The effect of last year's increase, however, is likely to be a rise in prices and a consequent downturn in sales. Initial projections by growers suggested a decline of more than three per cent.

So far this forecast has proved pessimistic, and the market has again been expanding thanks to continuing cooler sales. But after the cooler controversy it is an open question whether the trend can continue.

Growers feel irritated by the tax because wine's export potential has become so obvious at a time when the country is struggling with its balance of payments deficit.

Their irritation was compounded when the Government decided, against recommendations and inconsistently, to continue exempting the gold mining industry from corporate taxes.

Down the years, however, wine producers have managed well, despite the Government, and may be hardy enough to carry on. Their product has shown such a marked improvement, rivals and connoisseurs around the world cannot avoid taking note. In the highly specialised world of wine, that is a real tribute.

Chris Sherwell